

FINANCIAL TIMES

World Business Newspaper <http://www.ft.com>

MONDAY APRIL 5 1999



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Savary back in form
with L'Avare
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Posing for listening
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Lucy Kellaway, Page 8



Santander's Corcostegui
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Anglo-Saxon model
Finally outperforming
the continental model
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Mastering Information Management

The FT's 12-part
series on the
I in IT continues
today.
Part Ten: Innovation and the
learning organisation

WORLD NEWS

Dutch stage set for trial of Lockerbie bombing suspects

Two Scottish prosecutors arrived in the Netherlands yesterday amid signs that Tripoli was about to send two Libyans accused of planting the 1988 bomb which destroyed a Pan Am airliner. Scottish police are already at Camp Zeist, the disused US military base in the central Netherlands that will host the men's trial under Scottish law. Page 4

UK may delay on rights laws
The UK may delay incorporating the European convention on human rights into domestic law because government departments are not ready to cope with its impact. The act gives judges unprecedented powers and will involve them in politically contentious disputes. Page 6

Israelis 'back Palestinian demand'
Most Israelis believe Palestinians drive for an independent state is unstoppable and their demand just, a poll shows. Page 5

Chinese dissident heads home
Ediled dissident Wang Xizhe, who wants to mourn his father's recent death, was flying from New York to China despite having no permission to return there, a human rights group said.

FTC to see net privacy study soon
A study of internet sites and how they collect personal information about users will be presented to the Federal Trade Commission soon by researchers from Georgetown University, Washington. Page 5

China poised to take on tax cheats
China is poised to launch a campaign against tax evasion, Zhang Wei, director of China's state Bureau of Taxation, said the aim was to help boost tax revenues and aid the government's fiscal stimulus policy. Page 4

Amner's wife launches new party
Wan Aizhen Wan Iemai, wife of Amner Ibrahim, launched a new Malaysian political party, placing the sacked Malaysian finance minister firmly in the opposition camp. Page 5

Nigeria court to rule on poll
Nigeria's Court of Appeal is due to rule today on the legal challenge to the presidential election victory of former military ruler Gen Olusegun Obasanjo.

Surinam president sacks Bouterse
Surinam president Jules Wijdenbosch has dismissed former dictator and army chief Desi Bouterse as a government adviser. The cabinet said Mr Bouterse was "hindering social peace".

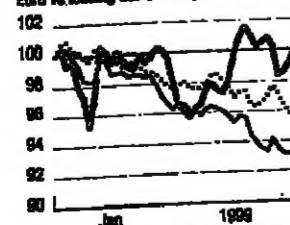
Kazakhstan leaves currency to its fate
Kazakhstan is to stop supporting its tenge currency, a Russian news agency said. Interfax reported that the country planned to let the tenge float free against the dollar from today.

Tornado kills trailer dwellers
At least six people died and 100 more injured in Saturday's Louisiana tornado, officials said. Worst hit were trailer homes.

World Equity Markets

The latest trends and data from more than 50 national markets at a glance
Page 25

Progress of the euro



After reaching a record low on Monday, the euro edged a little higher as the Federal Reserve kept its interest rate steady. The dollar fell against the euro and the pound sterling. Page 10

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Currency	Unit	Price	Change
Australia	A\$100	69.00	+0.20
Belgium	BF100	136.00	+0.10
Canada	C\$100	70.00	+0.10
Denmark	Dkr100	136.00	+0.10
France	FF100	163.00	+0.10
Germany	DM100	136.00	+0.10
Greece	Dr100	340.00	+0.10
Italy	Lira100	1,936.00	+0.10
Japan	Yen100	163.00	+0.10
Netherlands	Fl100	136.00	+0.10
Portugal	Esc100	200.00	+0.10
Spain	Pes100	163.00	+0.10
Sweden	Kr100	136.00	+0.10
Switzerland	Sfr100	136.00	+0.10
UK	£100	136.00	+0.10
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Nato considering 'escort force' for Kosovo refugees

By Neil Buckley in Brussels,
Guy Dinmore in Belgrade
and Kevin Dore in London

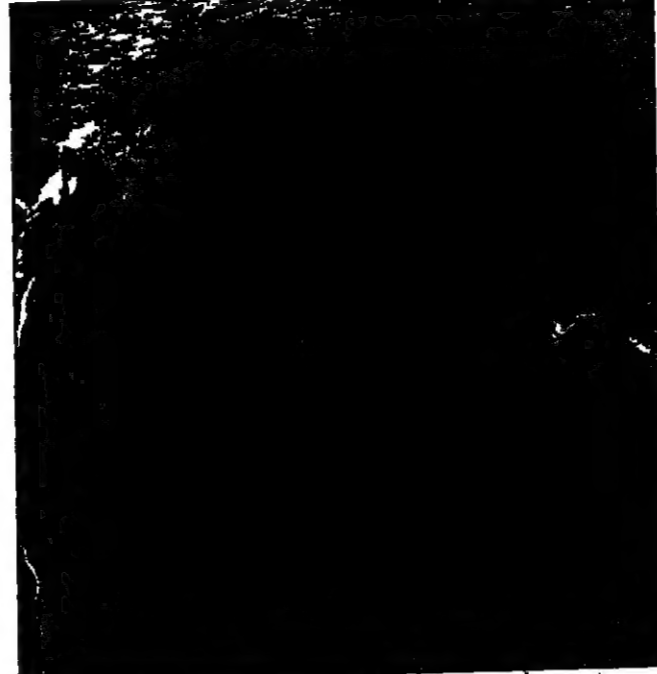
Western diplomats are considering proposals to send a Nato "escort force" of at least 50,000 troops into Kosovo to protect returning refugees, once air strikes have driven Yugoslav forces out of the region.

But western countries were obliged to accept yesterday that in the short term they must open their own doors to refugees from Kosovo, as the flood of people seeking to escape the conflict overwhelms the resources of neighbouring Albania, Macedonia and Montenegro.

The German government said yesterday that European Union countries were considering offering sanctuary to at least 100,000 refugees from Kosovo. EU interior ministers will meet on Wednesday to discuss the details. The German government, which currently holds the EU presidency, was unable to say yesterday when the transport of refugees would start.

However, Emma Bonino, EU Commissioner responsible for humanitarian aid, warned against flying thousands of them to temporary shelters in faraway countries, which played into the hands of Slobodan Milosevic, the federal Yugoslav president.

"We should not co-operate in any way with ethnic cleansing," she said.



A Kosovo refugee comforts her son yesterday, as European Union countries were said to be considering giving sanctuary to at least 100,000 refugees. AP

Sadako Ogata, the United Nations high commissioner for refugees, said yesterday that "Kosovo's neighbours are swamped and they are no longer able to cope with the influx. All nations must now help to save lives."

The UNHCR had originally hoped to be able to cater for all the refugees in countries neighbouring Kosovo, but the sheer scale of the problem means this is not an option at the moment.

The agency said more than 300,000 people had left Kosovo since Nato began its bombing campaign against Yugoslavia on March 24.

Both Nato and the refugees themselves say that Yugoslav forces have stepped up the campaign of ethnic cleansing since the bombing campaign started.

Alliance leaders and officials continued yesterday to rule out a ground invasion of Kosovo, or using any ground forces that would have to "fight their way in".

But Nato took a step in this direction with the US announcement that it was deploying Apache helicopter gunships to the Kosovo conflict and sending 2000 soldiers to Albania.

The proposals for an eventual "escort force" to accompany the return of refugees to Kosovo have emerged from informal discussions between members of the six-nation Contact Group, which has been co-ordinating the international community's response to the Yugoslav crisis.

Under the plan, an international security force would go into Kosovo before a formal peace agreement is signed.

The plan has not yet been endorsed by Nato ambassadors in Brussels. But it was alluded to in a statement on Saturday night by Javier Solana, Nato secretary-general.

Yugoslav general vows to banish Nato, Page 2; Murder drives out a suffering people, Page 3
Time to send in troops, Page 10

SAS plans SKr15bn order from Airbus

By Tim Bart in Stockholm

Scandinavian Airlines System, the three-nation Nordic airline, is likely to place a SKr15bn (\$1.5bn) order for long-haul aircraft with Airbus, the European consortium.

Jan Stenberg, SAS chief executive, indicated that the airline favoured Airbus ahead of Boeing of the US as the supplier for 12 new aircraft.

In an interview, Mr Stenberg said SAS's fleet of Boeing 767s would probably be replaced by Airbus A330 and A340 jets - the first time the airline had placed an order with the European manufacturer.

"Airbus is ahead with its long-haul combination. It offers more options in terms of size and range."

His comments are the first signal yet that SAS - 50 per cent owned by the governments of Sweden, Denmark and Norway - would press ahead with plans for a new long-haul fleet.

The carrier is midway through an overhaul of its short-haul aircraft, replacing its ageing McDonnell-Douglas and Fokker fleet with a SKr1.5bn order for Boeing 737s.

Mr Stenberg emphasised that a final decision on long-haul aircraft had not been made. "We are going through the calculations on how best to improve profitability on intercontinental routes."

A firm order is likely to be made during the first half of this year.

SAS's preference for Airbus may have been influenced by its increasingly close ties with Lufthansa, the German carrier and its partner in the Star alliance.

Lufthansa and SAS hope to cut costs by sharing procurement and maintenance for parts of their fleet. The German carrier, one of Airbus's largest customers, has already agreed to service the engines for SAS's new Boeing 737s.

Mr Stenberg, a member of Lufthansa's supervisory board, said the relationship would not lead to any sort of cross shareholding. But he confirmed that Star could take a stake in Thai Airways, another member of the alliance.

"Star, through Lufthansa, has an interest in participating in the privatisation of Thai Airways," he said. "But that would be to ensure that Thai stays in Star rather than fall victim to a hostile alliance removing it from the group."

Qantas of Australia and British Airways, both members of the rival One World alliance, have been suggested as possible bidders for the Thai carrier.

Mr Stenberg said Star would also like to see Singapore International Airlines join the group. SIA already has bilateral ties with SAS and Lufthansa.

"It would be odd for SIA to go elsewhere after they have signed these agreements with us," he added.

Auction loans speed Tokyo bank revamp

By Naoko Nakamura and Gillian Tett in Tokyo

Financing Japan's banking reform programme took a big step forward when a government agency borrowed ¥8,500bn (\$83.1bn) through public auctions.

The Deposit Insurance Corporation, the government body responsible for the financing, has borrowed money at below the market rate through four auctions of loans between six and 11 months.

The remaining funds will come from the Bank of Japan as ¥1.63bn bridging loans with a six-month maturity.

The success of the DIC auctions has defused a potentially bitter dispute about how to fund Japan's banking reform. Last month, 14 large banks successfully applied for a total of ¥7,450bn of public funds to boost their capital bases.

The Bank of Japan insisted recently it did not wish to pay for the capital injection because it is increasingly reluctant to hold illiquid or risky assets on its balance sheet. Consequently, it has argued that the DIC should raise funds in the markets.

However, the Ministry of Finance did not want the DIC to raise the necessary finance through bond issues, fearing that would cause overcrowding in the bond markets. Preliminary studies by the DIC earlier this spring initially suggested that persuading investors to partici-

pate in a loan auction could prove difficult.

The Bank of Japan took steps in recent days to persuade foreign investors to participate, particularly by emphasising the fact that the loans would carry a government guarantee. In the event, the DIC auctions attracted considerable foreign interest.

"There was a good amount of participation by foreign entities," said Keiji Matsuda, deputy governor of the DIC. "We are pleased that they were [such] good auctions."

On the home front, agricultural co-operatives and Norinchukin Bank, the bank they control, are thought to have played key roles.

"We participated in the auction as part of our asset management strategy as well as in the spirit of co-operation [with the authorities]," said a Norinchukin official.

Japanese life assurance and non-life companies were also important participants, says Mr Matsuda.

Several large insurers said they bought several hundred billion yen worth of the loans, although others said their bids had been unsuccessful. But Nippon Life and Tokio Marine & Fire Insurance, the life and non-life industry leaders, said they had not participated.

Yoshito Sakakibara at Goldman Sachs said: "I think these [loans] are probably quite attractive since they are government guaranteed and the rates in the money markets are very low."

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JAN 10 1999

WORLD NEWS

KOSOVO CRISIS

SERB DEFIANCE YUGOSLAV TROOPS URGED TO CLEAR NATO FROM SKIES AND BORDERS ■ SINISTER DEVELOPMENTS IN MACEDONIA ■ PLAN TO PROTECT RETURNING REFUGEES

Yugoslav general vows to banish Nato

By Guy Dinnmore in Belgrade

The chief of staff of the Yugoslav armed forces, responding to a new phase of Nato attacks on civilian and industrial installations in urban centres, yesterday called on his troops to clear Nato from the skies and away from the country's borders.

"Holding our combat positions with determination and vigilance, we will continue to fight until the criminals are expelled from our skies and away from our borders. Wishing you luck and prosperity - onward to new victorious battles," General Dragoljub Ojdanic concluded.

Morale within the army appears high and statements from the Pentagon on the effectiveness of the air campaign are questioned by what foreign reporters, restricted in their movements, have seen on the ground.

On an army-escorted trip to southern Serbia, reporters saw damage done to two military installations in and near Prokuplje but most of the facilities, including deep underground bunkers, were

untouched. The Pentagon said Nato had information that Serbia was having trouble mobilising reservists but in the south most men of fighting age were in uniform.

Nato's decision to take its air campaign to the heart of the regime of Yugoslav President Slobodan Milosevic by hitting targets in central Belgrade also appears only to have hardened the resolve of Serb civilians not to allow foreign forces into Kosovo.

"Have they no religion?" asked Svetlana Djuric, a Yugoslav Jew who, like many Serbs, draws parallels between Nato's bombing of Belgrade over Easter with the first air raids by Nazi Germany during the Easter festival of 1941.

Olga, her home just next to the plant that provides heating for 300,000 people in New Belgrade, was saved by her piano from flying glass shards as her windows shattered. She shuns air raid shelters because of "the rats and the dirt" and remains undaunted by her early morning awakening.

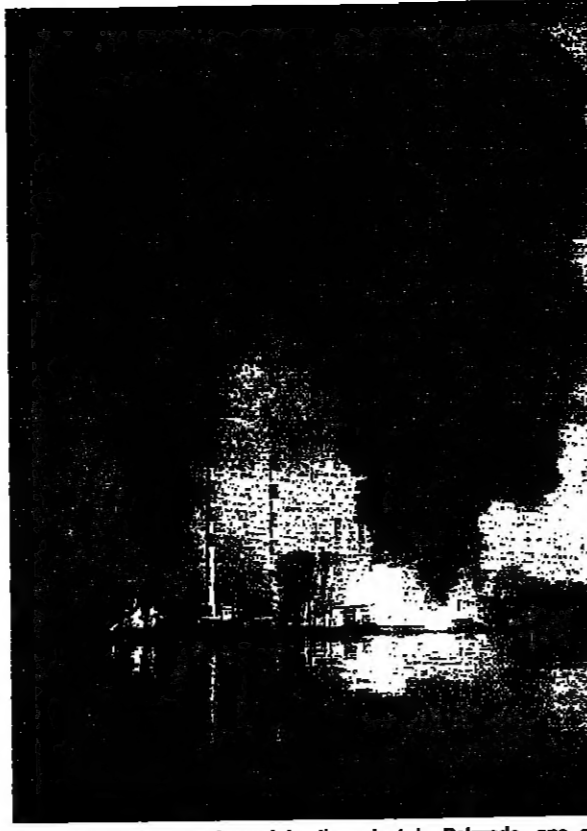
Men who tried to dodge their compulsory military service a year ago, when the

war against ethnic Albanian rebels erupted in Kosovo, now vow to volunteer if Nato sends in ground forces.

Anger is vented on western embassies in Belgrade. Outside the US mission, a cardboard cut-out of an American soldier hangs from a noose next to the American flag that has had its stars replaced by swastikas. The Canadian embassy lies open to the street after its glass front doors were demolished.

But on the economic front the war is taking its toll. The dinar has fallen by about 10 per cent on the black market and the government is three months behind paying out pensions and has told state workers they must wait for their latest monthly salaries. But Serbs have grown used to hardship after years of economic sanctions imposed in 1992 after war erupted in Bosnia and Croatia.

Rumblings of discontent against Mr Milosevic can only be heard in whispered conversations but they are outweighed by the pervasive anti-western sentiment. The independent media have been silenced as all newspapers are under censorship



Smoke rises from a thermal heating plant in Belgrade, one of several targets struck by Nato bombs yesterday

by the Serbian information ministry that calls daily meetings of local editors.

Foreign reporters can only move around the country without the fear of being arrested and deported. If accompanied by the army, so far, no trips have been organised to Kosovo. Officials say it is too dangerous

because of Nato air strikes. State television yesterday showed pictures of a massive underground complex in Kosovo containing several MIG-21s and a command centre. The pictures were intended to reassure the military that the military had not suffered serious losses in the Nato bombing.

Macedonia stands disunited and poor

As the Albanian minority comes to the aid of refugees, the Slav majority is not so sure. Robert Wright reports from Skopje

Graffiti daubed about Skopje, the capital of Macedonia, are testimony to this small, poor former Yugoslav republic's profound divisions.

Some humanitarian aid vehicles still bear the scars of a riot just after the first air strikes against Yugoslavia. Simply because they represented the west and international community, they were painted with swastikas and other symbols linking them with Nazism.

Elsewhere on the streets, however, are also scrawled the letters "UCK", the Albanian acronym for the Serbs' enemies in Kosovo, the Kosovo Liberation Army.

Most sinister of all, in nearby villages some walls bear a cross with four Cs around it, the symbol used by ethnic Serbs everywhere from here to northern Croatia. It stands for the slogan of those trying to create an ethnically pure Serbia - "Only unity saves the Serbs".

Macedonia has muddled through seven years of peace since seceding from Yugoslavia in 1992. But how long that can continue will depend on whether the country can now forge an identity that overcomes the ethnic links which seem to command its citizen's primary loyalty.

"The next three to five days are crucial to the future of Macedonia," says Saso Ordanovski, editor-in-chief of Forum, the local political magazine.

More than 60 per cent of Macedonia's 2.2m population are ethnic Macedonian Slavs, a group claimed by some Serbs to be southern Serbs, and by some Bulgarians to be western Bulgarians. Ethnic Albanians form the next biggest group with at least 23 per cent of the population, probably more, while there are myriad other Turks, Romanians and Vlachs. The country's new government, elected last November, had apparently been successfully working to create a greater

sense of common purpose among the groups but it is now under the pressure of a huge humanitarian effort the country's crumbling economy cannot support.

Some 57,000 ethnic Albanian Kosovo refugees have already been admitted to Macedonia, while roughly 50,000 wait between the Macedonian and Yugoslav borders. The Kosovars have been standing in long queues - wet, cold people, waiting to register. They are kept from entering the country illegally by a cordon of nervous-looking young Macedonian army conscripts.

But there is little evidence of compassion for the refu-

Slav fears of being outnumbered have increased

gees from some in the government or the country's Slavs. Like poorer groups everywhere, Macedonia's Albanians were already outnumbered by other groups. The mass arrival of new Albanians has increased Slav fears of being outnumbered.

Refugees also arrived and concentrated mainly in a strip in the country's west, neighbouring Albania. The most alarmist view sees this majority-Albanian area as potentially part of a greater Albania.

Panic at the possible demographic changes has been fanned by sections of the media and some in the government. Reporters from one television station have repeatedly asked at press conferences about the government's terms to deal with infectious diseases they claim the Albanians are bringing into the country. They have also regularly pursued questions about the refugees' alleged ingratitude in turning down places in makeshift refugee camps.

Most of the refugees have instead been placed in already crowded homes of Macedonian Albanians.

So alarmist are the questions that it is hard to dismiss whispers that some local media are being used by pro-Serb forces to foment panic. Some government ministers, who have been behind a policy of letting refugees in very slowly if at all, retain close links with the Serb capital, Belgrade, formed when they pursued careers in the Yugoslav federation. Macedonia's 50,000 Serbs tend to have greater influence than their numbers would suggest, because of preferential under the old Yugoslav system.

This is in contrast to the behaviour of Macedonia's ethnic Albanians who have launched a mammoth effort to help. Arben Dzhafert, leader of the Democratic Prosperity Party of Albanians, one of three parties in the governing coalition, has won plaudits for an appeal for calm and Macedonian unity far more high-minded than has been made by his Slav colleagues.

Many Slavs expressed surprise at the Albanians' response, since they had expected belligerent talk about fighting for Kosovo and a greater Albania. If that generous response goes the country through the crisis, Saso Ordanovski of Forum magazine points out that Macedonia can expect substantial international help to overcome the battering received by its economy as a result of Kosovo.

Added to that, the Serb populism which sparked off wars elsewhere in Yugoslavia is a weak force in Macedonia, with Macedonians divided between seeing themselves as allies or victims of Serbia. An incident at a border or refugee camp could still topple Macedonia's stability. But for the moment there is cautious optimism it might even emerge stronger from the crisis.

UK offers 'temporary' shelter until refugees are able to return home

The UK government announced yesterday it was preparing to provide temporary accommodation in Britain for thousands of Kosovo Albanian refugees, writes Andrew Parker.

A spokesman for Tony Blair, prime minister, said the UK was willing to provide accommodation for refugees until they could return to their homes in Kosovo. They are expected to start arriving within days rather than weeks.

Separately, the government admitted it did not anticipate the scale of the refugee crisis that would

result from Nato's air strikes. Doug Henderson, armed forces minister, said: "It's impossible in a conflict situation to anticipate in advance the level of atrocities that Serb forces would actually commit."

They have been extremely aggressive and rapid in trying to clear Kosovo of Kosovo Albanians. The Home Office said EU states were drawing up contingency plans to accept refugees but the preference was for Kosovans to remain in the Balkans.

Mr Blair said early yesterday: "Our goal must be

to ensure that these people can return to their homes. We cannot and must not accept Milosevic's ethnic cleansing. That means that we must try, if possible, to avoid dispersing these people around Europe."

The spokesman for Mr Blair said later: "Our top priority is to get these refugees back to their homes and enable them to rebuild their lives in a secure environment. In terms of providing temporary accommodation outside the region, we are already playing our part."

Alliance mulls 'escort force' plan

By Neil Buckley in Brussels

The Rambouillet peace plan for Kosovo thrashed out so painstakingly last month seemed to be dead at the weekend, amid signs of a shift in Nato policy.

Nato leaders and officials continued to rule out a ground invasion of Kosovo, or using any ground forces that would have to "fight their way in".

But plans are being studied for the western alliance to send an "escort force", which might have to number 60,000 or more, into Kosovo to protect returning refugees. This would happen only after Yugoslav forces had withdrawn - or been driven - from the region. But it might occur before any peace deal was signed.

First signs of the shift came with a statement from Javier Solana, Nato secretary-general, late on Saturday, which appeared to

toughen the alliance's demands on Slobodan Milosevic, the Yugoslav president. To end Nato bombing, Mr Solana said, Yugoslavia had to "stop all repressive and combat activity and withdraw its forces from Kosovo, and accept arrangements in which all refugees can return safely to Kosovo under protection of an international security force".

The demand for Mr Milosevic to withdraw all his forces goes beyond Nato's original stipulation that he must accept the Rambouillet plan. That would have allowed 2,500 Yugoslav special police to remain in the region for a year, plus 1,500 soldiers to guard Kosovo's international borders.

The suggestion of a security force to help refugees return was also new. The Rambouillet plan, drawn up before Mr Milosevic unleashed his campaign to depopulate Kosovo, said little about refugees.

Mr Solana's statement provoked a diplomatic spat at Nato headquarters on Saturday night, as some alliance members tried to distance themselves from his remarks. Officials had to "clarify" that the statement reflected the secretary-general's view and had not been adopted by Nato.

But it is understood to have reflected the views of informal discussions between the five Nato countries that are also members of the Contact group, coordinating the international community's response to the Yugoslav crisis.

It has also been echoed in some Nato capitals. Kenneth Bacon, Pentagon spokesman in Washington, told journalists the US had no intention

of invading Kosovo or bringing refugees back by force. But he did talk of protecting returning refugees with an international force.

He said Mr Milosevic had to accept the "principles of Rambouillet" - which was not necessarily the same thing as a signature.

Jamie Shea, Nato spokesman, played down suggestions of a policy shift yesterday, insisting the alliance's "objectives" of creating a peaceful, democratic and multi-ethnic Kosovo had not changed.

The new thinking in the Contact group marks a realisation that the humanitarian crisis is so grave the western alliance could not wait for formal negotiation of a peace accord before starting to put refugees back into Kosovo.

It also reflects fears that, under the terms of Nato's original demands, Mr Milosevic could theoretically stop the air campaign by announcing acceptance of the Rambouillet terms - having already driven most ethnic Albanians from Kosovo, and with no guarantees on whether they could return.

Nato military commanders hope that improving weather conditions over Yugoslavia will allow them to break Mr Milosevic's army and force it to withdraw from Kosovo.

Military experts suggest between 60,000 and 90,000 troops would be needed for any escort force - far more than the 28,000 laid down by Rambouillet. Nato would need to put a deterrent force on Kosovo's borders with Serbia and be ready to meet pockets of Serb resistance.

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Aid agencies start to improve conditions

By Stefan Wagstyl in Kukes, northern Albania and Robert Wright in Skopje

The 220,000 Kosovo refugees in Albania were yesterday beginning to see their conditions improve as international aid agencies started to bring their resources to bear on the disaster. But their operations - and those of the Albanian government and local authorities - still face challenges, with 20,000-30,000 refugees a day pouring into the north of the country.

By the end of yesterday some 120,000 people were crammed into the small town of Kukes and the surrounding region, with the numbers rising by the hour. Many were sleeping in the homes of local people, as many as 10 to a room in small three-room flats.

The authorities want to transfer as many as possible to refugee camps being established in more accessible parts of Albania. But lack of transport has limited the numbers leaving Kukes

to about 15,000 daily, according to the United Nations High Commissioner for Refugees, which is leading the international relief effort.

Jacques Mouchet, the UNHCR special envoy for Albania and Macedonia, said relief workers were starting to master the crisis. "At the beginning the situation was unclear. Things are now getting better but it's still difficult."

UNHCR rejects criticism for delays in supplying aid. Officials said it was impossi-

ble to know when and where the Serbs would expel the Albanian Kosovars. The closure - apparently temporary - of the Macedonian border has compounded the problem.

Nato troops were expected to arrive in a day or two to help with relief work, though their precise role was unclear. Aid workers praised the unusually active support of local Albanians who have taken thousands of Kosovars into their homes.

Bordhyli Selmani, a Kukes

municipal official, is hosting five Kosovars in the same flat as his own five-person family. "Of course, it is difficult. But they are our brothers. It is our duty to help," he said.

Kosovars arrive in Albania exhausted after a day or more on the road. Most arrive in tractor-drawn trailers. Wealthier refugees have come by car. The poor have walked, a few of them barefoot. While most are hungry, famine is not a risk given that most ate well until the war began 11 days ago. Doctors said the main problems were dehydration, diarrhoea and colds.

Meanwhile, the Macedonian government last night began flying out tens of thousands of Kosovo refugees to third countries in a development expected to ease the crisis at border crossings into the country where thousands had been waiting to be registered.

The first aircraft were due to take off for Turkey, which had said it would accept 20,000 of the 57,000 refugees officially inside Macedonia. Germany was set to take another 10,000 refugees, while Norway would take 6,000.

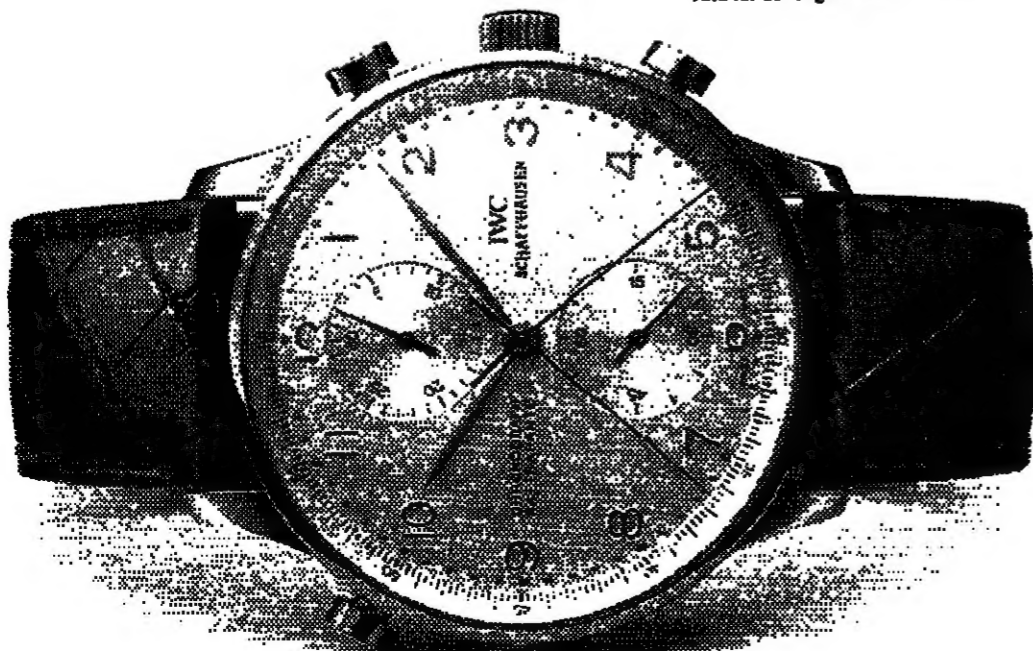
On Saturday the Macedonian government had in effect halted entry of refugees, saying it would allow in only as many as it had guarantees to take from third countries. The Macedonian army had been partially mobilised to ensure the move did not set off large-scale unofficial border crossings by desperate Kosovars.

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KOSOVO CRISIS

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Murder drives out a suffering people

By Stefan Wagstyl on the Albanian-Yugoslav border

Iliaz Morina can hardly speak as he describes how a uniformed Serb gunman knifed his cousin's infant son before the terrified eyes of his whole family.

"He took the child from its mother," says the 68-year-old Kosovar Albanian farmer. "He stood in front of us... He asked for 4,000 Deutsche marks... We could not give it to him... He killed the baby with a knife... He was eight months old... The mother has gone crazy."

Mr Morina finds it difficult to string more than a few words together before fading into silence. But his eyes, red with pain and fatigue, speak volumes for the agony he has endured in the past five days since the Serbs burst into his home in Seniv, a village near the Kosovo town of Malisevo.

After the baby was murdered, the extended family of about 20 were allowed to leave. Most boarded the family tractor and ran a gauntlet of Serb police roadblocks to the Albanian border.

Speaking yesterday, only hours after reaching the safety of Albania, Mr Morina's ordeal was still not over. Some of the family, including the baby's mother and father, were still in Kosovo. "I don't know

where they are," he said.

Mr Morina's story was impossible to verify yesterday, as were the accounts of thousands of other refugees pouring across the mountain passes into Albania. Some of these tales are hearsay. People who vividly describe massacres later concede they are repeating stories told by others. Few are trained observers. All are exhausted and under immense emotional strain. And all loathe Serbs.

However, Mr Morina's account fits a pattern of localised atrocities reported by other refugees. The Serb aim is the expulsion of Albanian-speakers from Kosovo, rather than their extermination. But deliberate terror is part of the campaign - frightening a whole community into submission by murder - sometimes of one or two people, sometimes of one or two families and sometimes of larger numbers.

Different groups of gunmen seem to behave differently. The biggest killings appear to be in regions where the Kosovo Liberation Army was previously active. Young men have been a particular target: they are conspicuously missing from the refugee families. But just how many have been murdered is impossible to judge - many families report leav-

ing behind one or two men to guard the family property; others say their men are hiding in the mountains.

However, from some places come frightening accounts of Serbs picking out men from their families and leading them away for execution. The town of Dakovica, near the Albanian border, was, according to witnesses, the scene of notably widespread killing.

Among the residents was Fatos Peni, who previously worked for the Organisation for Security and Co-operation in Europe, which ran a monitoring operation in Kosovo until Nato bombing started. He says in a statement given to the OSCE that on March 24, when the bombing began, hooded Serb gunmen called on the families of doctors, teachers and other educated Kosovars. They shot the men, led away women and children, and burnt the houses. On April 2, Mr Peni and his family were ordered to leave for Albania, along with other residents. Bodies littered the streets, he says in his statement.

His account is echoed by 15-year-old Blerita Kasumi who also left Dakovica on April 2. Speaking in Kukës, the main town in the Albanian border region, she says she saw Serbs shooting and stabbing people and setting fire to houses. Among her



Exhausted Albanian women pictured in a bus yesterday after spending several days in the open following their expulsion from Kosovo

friends, the Dana family were shot and the Kod family hurled alive, she says. "The Serbs made massacres. I saw the bodies," she says with the frightened look of one who has seen too much for her years.

Even after being driven from their homes, refugees were not safe. A column of 12,000 fleeing from their burning villages was bombarded by Serb aircraft and

tanks on Thursday night while they slept in hamlets near the town of Orasovac, in southern Kosovo. In Nagavc, a house crammed with about 100 refugees was destroyed, killing all, or almost all, those inside, says Hazir Berisha, a 28-year-old unemployed man from Brestovc village in the Orasovac district. "It was impossible to get into the house to bury the bodies."

The memory of such deaths is a heavy burden for the living. Some want to talk, others to say nothing. In Kukës hospital, Musin Braha, a paediatrician with 28 years' experience, says the psychological damage to children can be profound. "We have a traumatised 11-year-old boy. He does not communicate at all. When he sees his parents cry, he shakes."

Rising US anger fuels calls for ground troops

By Nancy Davies in Washington

Republican and Democratic senators in the US yesterday united in calls for the introduction of ground forces into Kosovo and said Congress would push the president towards that end when it returned from its spring break next week.

However, Samuel Berger, national security adviser, yesterday insisted on CBS television's Face the Nation

programme that "an invasion force" fighting the Serbs village by village was "not in the national interest". Instead, Nato would stick with "unrelenting bombing", aided by a battalion of Apache helicopters, accompanied by rocket systems and supporting troops, now on their way.

But the pressure to ratchet up the pain on the Serbs is increasing. Film footage of apparently brutally mur-

dered ethnic Albanians ran repeatedly on US television at the weekend, overlaying the heartbreaking images of suffering refugees and the plight of three captured US soldiers. When politicians are risking their necks with calls for dangerous intervention, the public is usually not far behind.

Clearly a shift in congressional sentiment is under way. When Congress left for its vacation, it only grudgingly voted support for the

air war. Now some senators want unconditional surrender and the trial of Slobodan Milosevic, the Yugoslav president, as a war criminal.

"I don't like this gradual escalation," said Senator John McCain, a prisoner of war in Vietnam and a one-time Republican presidential candidate. He said bombing should be intensified and the administration should be readying

ground troops for action. Senator Joseph Lieberman, Democrat from Connecticut, said the US should arm the Kosovo Liberation Army, which he said had been running short of food and ammunition. "We have to hold open the option of using ground forces to finish this battle."

Warren Christopher, President Bill Clinton's first secretary of state, writing in the Washington Post, called for

the positioning of strong mobile forces in Macedonia and Albania to protect those nations and "to make it plain that no option has been foreclosed".

Mr Clinton already is facing muted criticism for announcing in advance that ground troops would not be used. Now he is calling for patience and making promises that the ethnic Albanians will be returned to their homes.

Germans line up behind Nato action

By Tony Barber in Frankfurt

A desire to show solidarity with Nato and an overriding sense of Germany's responsibilities before history are maintaining public support in the country for Nato's undeclared war against Yugoslavia despite opposition from a vocal pacifist minority.

For a nation whose army is firing weapons in anger for the first time since 1945, a people so seared by its collective memory of Nazi barbarities that it once seemed unthinkable ever again to go to war, the public mood is strikingly calm and purposeful.

"The most important thing now is that we maintain our resolution and clarity, both in opposing [Yugoslavia's President Slobodan] Milosevic and within Nato," Chancellor Gerhard Schröder told a cabinet meeting last week.

There are few anti-war demonstrations, and no one is hanging white flags out of their windows as thousands of Germans did in 1991 when the US assembled an international coalition to expel Iraqi forces from Kuwait.

Opinion polls suggest majority support, unchanged since the outbreak of war on March 24, for the centre-left government's decision to take part in Nato's air attacks on Yugoslavia. According to a survey in the weekly magazine Stern, 62 per cent of Germans believe the air strikes should continue, even if some German soldiers should die. Only 36 per cent were opposed.

Anti-war sentiment is stronger in former communist eastern Germany than in the west, where the public has had more than 40 years to embrace the concept of sharing Nato responsibilities.

Most television and press commentaries indicate sup-

port for the government's view that Germans, of all people, cannot stand aside in the face of what the media are portraying as incontrovertible evidence of Serbian forced deportations and atrocities against Kosovo's ethnic Albanians.

"This is systematic extermination, a terrifying reminder of what was done in Germany's name in the second world war," said Rudolf Scharping, the Social Democrat defence minister.

Even so, for Germans born after 1945 and reared on the axiom that *Krieg darf nicht sein* ("War must not be allowed to happen"), the war is proving a severe test of principles that long went unchallenged.

Nowhere is this more apparent than among left-wing Social Democrats and in the once ultra-pacifist Green party, increasingly torn over whether the war is justified. Hamburg's former mayor, Henning Voscherau, is one of several SPD politicians who have criticised Nato's failure to secure a United Nations mandate for the air strikes.

Hundreds of Green activists have signed an anti-war petition that accuses Nato and the German government of aggression in Yugoslavia. The Greens will hold a congress next month that could see loud anti-war protests from the rank and file, possibly complicating the party's role as junior government coalition partner to the SPD.

Yet the Greens' so-called *Realo* ("realist") faction, led by Joschka Fischer, foreign minister, is for the moment holding the line. The Greens' foreign policy spokesman in parliament, Helmut Lippelt, spoke for this faction when he charged Mr Milosevic with "racist expulsion, accompanied by murder. This is something that even a pacifist cannot bear."

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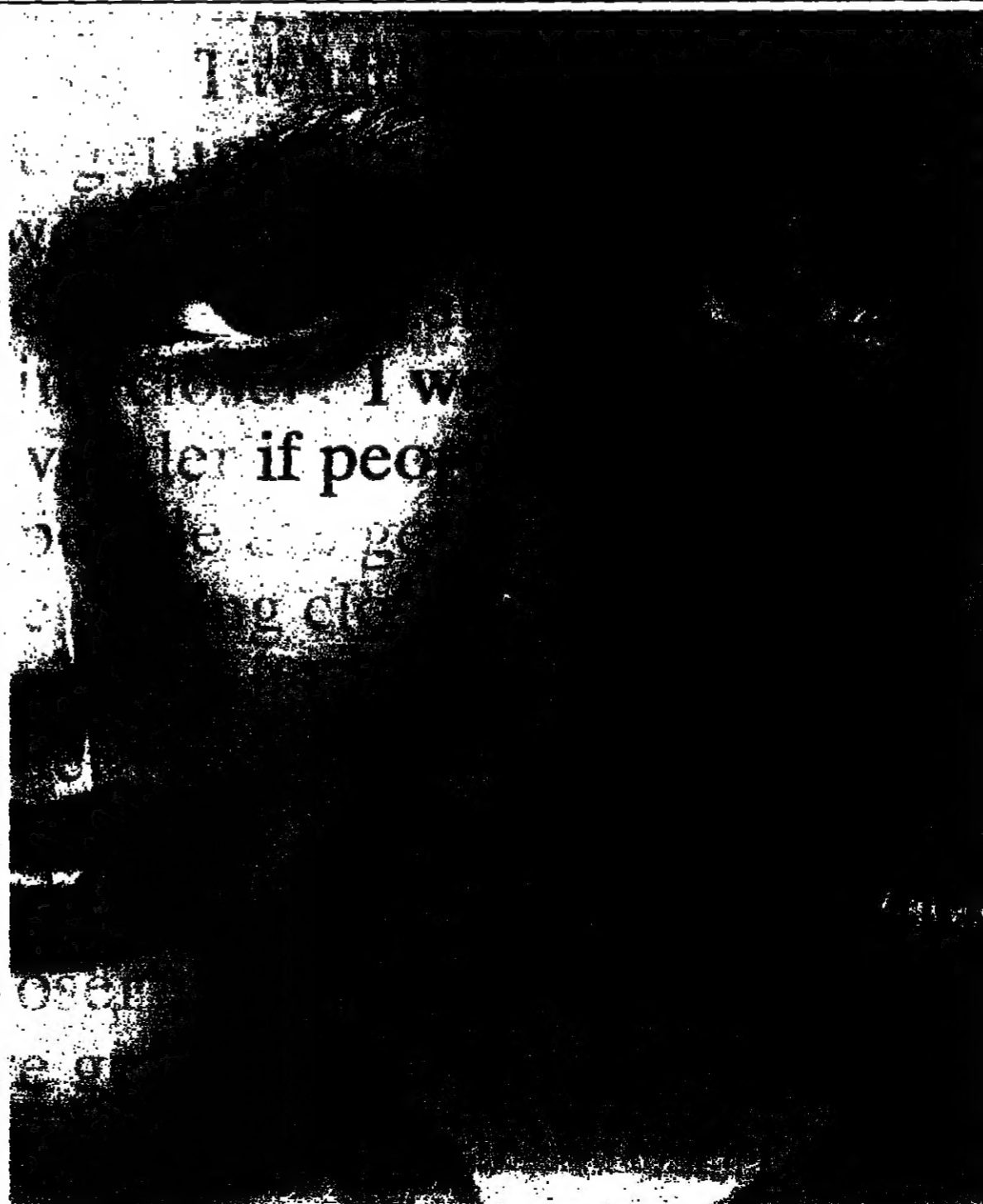
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INTERNATIONAL

FAKE INVOICES AND RECEIPTS TARGETED

Clampdown by China on tax evasion

By James Kyng in Beijing

China plans to launch a nationwide campaign this month to catch a multitude of cheats who evade taxes by using fake invoices and falsifying receipts, contributing to a strain on central government finances that ranks as one of the country's most pressing economic problems.

Zhang Wei, director of the general office at the State Bureau of Taxation, said in an interview that the measure was part of a four-pronged attack to boost tax revenues this year and allow the government more latitude to pursue a fiscal stimulus policy that is supposed to be the main engine of economic growth.

Beijing has forecast a budget deficit of RMB150bn (\$18bn) this year, up 56 per cent from 1998, and also plans a relatively mild tax collection regime to avoid squeezing companies and individuals as the wider economy slows. Total tax revenues are forecast to climb 4.8 per cent this year to RMB855.3bn, compared with a 10 per cent climb last year to RMB855.2bn, Mr Zhang said.

But the laxity in tax policy does not mean that China feels able to slack in tax collection. Indeed, with central government revenues at just 12 per cent of gross domestic product last year - one of the lowest levels in the world - Beijing realises its ability to conduct macro-economic policy is compromised by its poor tax receipts.

With this in mind, the government is about to take aim at selected categories of fraudsters. "There will be a big investigation of receipts," said Mr Zhang. "The government loses a lot of money every year in this." Receipt fraud in China ranges from the trifling but

virtually ubiquitous problem of businessmen over-claiming expenses with fake receipts, to an elaborate ruse through which companies doctor invoices to reduce their eligibility for value added tax, which contributes about 30 per cent of all Chinese tax revenues.

Value added tax in China is different from in the west. It is charged on the difference between the cost of inputs into a factory and the

Strain on central government finances ranks as one of the country's most pressing economic problems

value of products produced. Companies that can convince the taxman their product is worth less than the raw materials used to make it - which is objectively the case in many inefficient state enterprises - can therefore avoid paying any value added tax.

This has given rise to a thriving market in fake invoices which companies buy and then fill out with inflated figures to overstate the value of their factory inputs bought, Mr Zhang said.

Both the companies using fake invoices as well as the makers and sellers of the fakes are to be targeted. Mr Zhang said, are a crackdown on tax evasion among street vendors, chasing up tax arrears and increasing revenues from personal income tax.

Stage set for Lockerbie trial

By Gordon Grubb in Amsterdam

Two Scottish prosecutors arrived in the Netherlands yesterday, as indications grew that Libya was preparing the immediate despatch of two nationals wanted for planting the 1988 suitcase bomb which brought down a PanAm aircraft.

The crash of the Boeing 747 at Lockerbie in Scotland killed 259 on board and 11 on the ground. It brought the imposition five years later of United Nations sanctions against Libya - including an air embargo and foreign assets freeze - which are to be suspended if the extradition goes ahead.

The Libyan government of Muammar Gaddafi, which

said last month it would deliver the suspects by tomorrow, invited Arab and other delegations to the capital Tripoli at the weekend to witness the handover.

The two are to be tried by a Scottish judicial bench sitting at Camp Zeist, a former US military base east of the Dutch city of Utrecht. For a decade Libya resisted western demands that the trial of Abdel Basset Ali Mohamed al-Megrahi and Lamen Khalifa Fhimah, both allegedly intelligence agents, should take place in the UK or US.

The 100 acres (40 hectares) of Camp Zeist allocated to the hearing will, however, be Scottish soil for the duration of the procedure, which is thought likely to take well

over a year. As the two will be charged with murder, Scottish law requires that a trial begin within 110 days. But either defence or prosecution can apply to have that time limit extended, "and that is a very big but", said a Scottish Office official.

About 100 Scottish police as well as 20 prison officers, court officials and other staff are already billeted at the base. The three judges, who will sit without a jury, have yet to be selected. They are to be chosen by Lord Cullen, deputising for Lord Rodger, Scotland's lord chief justice, who can play no role because he was involved in earlier Lockerbie hearings.

The suspects are due to be taken under UN escort to the

Netherlands, where they will be detained by Dutch police before a formal extradition to Scottish jurisdiction. Under arrest at Camp Zeist, the two will be held in a makeshift Scottish police station while bomb-proof cells are completed.

British officials described the site as "extremely secure". Another building is being converted into a courtroom, in an operation which has cost the UK £750,000 (\$967,000) so far. That bill is expected to rise significantly as the procedure drags on, although Washington has indicated it will contribute.

As Norman MacFadyen and Jim Brisbane, the two public prosecutors, arrived at Amsterdam's Schiphol air-



Hans Corell, chief UN legal counsel, expected in Tripoli to arrange handover

port yesterday, Ahmed bin Hilli, assistant secretary general of the Arab League, was on his way to Tripoli. Hans Corell, chief UN legal counsel, was expected to arrive in the Libyan capital to arrange the handover.

Russia threatens US over sanctions

By Andrew Jack in Moscow

Russia yesterday threatened retaliation against the US following the imposition of sanctions announced at the weekend against three companies supplying arms to Syria.

The foreign ministry in Moscow called the US decision "illegal" and against international law and said it "reserves the right to take adequate steps in response".

Its reaction came as President Hafez al-Assad of Syria prepares to visit Moscow on April 13 for talks expected to cover military co-operation as well as economic and political links.

The US State Department said it had imposed sanctions against the Tula Design Bureau, the Trakhtobremash company and the Volsky Mechanical Plant for allegedly providing anti-tank guided weapons to Syria, which the US accuses of sponsoring terrorism.

However, the US administration held back from withholding \$90m in direct aid to Moscow, for reasons which James Rubin, the State Department spokesman, described as "in the national interest".

He said the sanctions would remain in place for one year after any weapons transfers came to an end, or until the secretary of state determined that a waiver would be in US interests.

The action follows US bans in recent months on a dozen Russian companies suspected of providing sensitive nuclear equipment to Iran, accusations which Russia vehemently denies.

Igor Sergeev, the Russian defence minister, said on Saturday that he "condemned" the US sanctions as "groundless".

The ministry added yesterday that they were "one more blow at Russian-US relations already heavily challenged by the US military action against sovereign Yugoslavia".

Delhi aims to draw investors into India's liberalised telecoms sector

By Amy Louise Kazmin in New Delhi

Investment in India's private telecommunications companies has been on hold for the past 18 months, with financial institutions reluctant to support what they regarded as unviable projects resulting from a deeply flawed liberalisation process.

When India first opened its state-controlled telecommunications sector to private competition back in 1994, it auctioned licences to provide local cellular and fixed-line services for parts of the country.

In the first flush of enthusiasm, Indian companies and their foreign joint-venture partners overestimated the potential market.

Those who won found themselves saddled with massive licence fees which they could hardly afford.

Cellular networks were launched widely but their high prices made them relatively unappealing to use for most Indians. Only two basic service providers got off the ground at all. When their folly became clear, private operators cried for relief.

In a bid to resuscitate the

ailing sector, the Indian government last week unveiled a radical new telecommunications policy, which it hopes will kick-start investment. Most crucially, the policy says companies that enter the sector from now on will not have to pay fixed licence fees. Instead, they will pay an initial entry fee, then enter a revenue sharing agreement with the government.

Analysts say this will give the government a vested interest in helping private operators succeed. "It's a very healthy step," says Mahesh Uppal, a telecommunications policy expert.

"The government isn't just out there to collect a pound of flesh; it becomes a stakeholder in the process." The official attitude now, he says, will have to be "if you don't make money, we don't make money".

But existing operators are in limbo. For now, revenue-sharing arrangements will apply only to new entrants. The question of what to do with companies that started operations under the old regime has been referred to Soli Sorabjee, India's attorney general, who has been

asked whether the existing players can switch over to the new regime.

Companies, which include joint ventures involving BT, AT&T, and Australia's Telstra, are cautiously optimistic.

"My feeling is that the existing players will be able to move over to the new regime," says Sunil Mittal, chairman of Bharti Enterprises, which runs one of New Delhi's two cellular phone services and operates a basic services network in Madhya Pradesh.

Virat Bhatia, a spokesman for AT&T, which is in a joint venture that runs a cellular network in western India, says the existing licences already contain an escape clause, which allows the government to alter the terms if deemed necessary in the public interest.

He believes the current circumstances meet that test. "If there is no transition for current operators, you are going to drive 47 odd companies into bankruptcy," he warns.

That, he says, would mean the government would have to repossess the licences and networks, then resell them -

a process which could take three to five years. "It'll freeze all the investments," he says.

The new policy also opens the sector to more players. However, the new policy allows unlimited basic service providers and says that four players - including the government - will be permitted to offer cellular phone services in any given area.

There are causes for concern. The role of the independent regulator, the Telecom Regulatory Authority of India (Trai), has been controversial, with the government Department of Telecommunications (DoT) challenging its authority in many areas.

Though the government upheld the regulator's new tariff schedule, many industry analysts interpret the new policy as a significant dilution of the regulators' powers.

For example, when it comes to resolving disputes between the licensor - the government - and licensees, the regulator will be limited to the role of arbitrator, instead of the stronger role as adjudicator.

That means the Trai will not have the ability to offer

temporary relief, or enforce its decisions, which can then be appealed to the courts. Mr Uppal called the change "a step backward" for which there is "no good reason".

However, others say by giving the regulator the responsibility for arbitrating disputes between the government and licensees, the government has taken a step forward.

Other aspects of the policy are more positive. The domestic long-distance sector, currently a government monopoly, will be opened to competition by the first of January next year.

The DoT, which now functions as both the licensing agency for private operators and a service provider competing with private operators, will separate the policy-making and licensing functions by 2001.

Overall, the new policy is likely to revive some investor interest in the sector. It seems the government has clearly learned something from the debacle of the past. "There is light at the end of the tunnel," says AT&T's Mr Bhatia. "I just hope it's not the train from the other side."

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NEWS DIGEST

MAHATHIR HAS LUNG INFECTION

Malaysian prime minister taken to hospital

Mahathir Mohamed, the 73-year-old Malaysian prime minister, has been admitted to the National Heart Institute with a lung infection, according to his aides. Dr Mahathir, who underwent heart bypass surgery in 1989, returned ill last week from the Hajj pilgrimage to Mecca. His aides say the prime minister was admitted to the institute because of his history.

The prime minister has recently been trying to manage an unprecedented political backlash against his 18-year reign because of the sacking of his deputy, Anwar Ibrahim, an economic recession and a viral epidemic that has killed 85 people. However he has remained energetic and involved in the day-to-day running of the country.

Dr Mahathir was admitted to the hospital on Friday night. Abdullah Ahmad Badawi, who replaced Mr Anwar as deputy prime minister, said he had seen Dr Mahathir yesterday and there was no reason to worry about his health. Sheila McNulty, Kuala Lumpur

MALAYSIA POLITICS

Anwar's wife starts new party

The wife of Malaysia's sacked deputy prime minister, Anwar Ibrahim, yesterday launched an opposition party to oust Prime Minister Mahathir Mohamed. Wan Azizah Wan Ismail, an eye doctor and mother of six, hopes to unite those who have turned against Dr Mahathir because of the treatment of her husband. The National Justice Party's logo is a blue and white eye, symbolising the black eye with which Mr Anwar emerged from detention.

Although Mr Anwar said he would support the party, he has not become a member. He has long belonged to the powerful Umno party of Dr Mahathir, which has led Malaysia since independence in 1957. Despite the tens of thousands who have rallied in support of Mr Anwar, political analysts are unsure whether the opposition can mount a successful challenge to the entrenched Umno.

The two main opposition parties, DAP and PAS, remain ideologically far apart despite pledging to work together to remove Dr Mahathir. The High Court is to deliver a verdict on Mr Anwar on the charges of abuse of power on April 14. Mr Anwar insists they are part of a high-level conspiracy to keep him from successfully challenging Dr Mahathir's 18-year reign. Sheila McNulty

ISRAELI OPINION POLL

Support for Palestinian state

A majority of Israeli Jews for the first time believe the Palestinians have a right to a state, while those who believe Palestinians would destroy the Jewish state has for the first time fallen below 50 per cent, according to the monthly "peace index" conducted by Tel Aviv University's Tami Steinmetz Centre.

The polls, carried out last month, signal a significant shift in public opinion in which a majority of Jews has consistently accepted the inevitability of a Palestinian state but never the right to a state.

The poll shows that 69 per cent of Israeli Jews said a Palestinian state was inevitable, 56 per cent said Palestinians deserved their state, and 48 per cent said Israel would not be destroyed if such a state was created. However, a strong majority opposed any compromise over Palestinians establishing their capital in East Jerusalem, although recent academic studies have suggested otherwise.

The polls coincide with an Israeli election campaign in which Benjamin Netanyahu, Israeli prime minister, desperate to boost his chances of re-election, has repeatedly warned of the dangers of a Palestinian state.

He has, publicly at least, refused to accept even the inevitability of a state which Yasser Arafat, Palestinian Authority president, was due to declare unilaterally on May 4 but has since postponed until after the Israeli election on May 17. Judy Dempsey, Jerusalem

MEMBERSHIP TALKS

Backing for Lithuania on EU

Lithuania should not have to provide a schedule for closing down the Ignalina nuclear power station as a precondition for being allowed to start full EU membership negotiations, Sweden's foreign minister Anna Lindh said.

Ms Lindh said Sweden would press for Lithuania to be allowed to begin formal membership talks after the Helsinki summit in December.

Neighbouring Baltic state Latvia is expected to be accepted for full membership negotiations in Helsinki without opposition. However, the failure of Lithuania to agree to the closing down of the Chernobyl-type power plant has been seen as hindering the country's progress to EU membership.

"Lithuania has not had as positive a commitment from the EU commission as Latvia but according to our evaluation Lithuania should have the possibility to start negotiations after Helsinki," Ms Lindh said.

"I think it is easier to convince Lithuania to close down Ignalina, according to their international commitment, and to help them get out of their dependence on Ignalina, if they are starting their negotiations with the European Union," she said. However, she said she did not think the country would become a member until it had made the decision to close the plant. Nicholas George, Stockholm

ATTACK ON RUSSIA'S SECURITY BUREAU

Two injured in Moscow blast

A bomb exploded outside an office of the Federal Security Bureau (FSB), the successor to the KGB, in central Moscow late on Saturday night, slightly injuring two people.

A security guard and a policeman passing near the building in Kuznetsky Most were hurt and shop windows shattered as a result of the blast.

No one has publicly claimed responsibility for the attack, but the FSB said investigations were taking place under the terrorist code.

A bomb exploded in Vladikavkaz in Northern Ossetia in the Caucasus last month killing over 60 people, and there have been recent reports of plans by Chechnyan separatists to launch terrorist attacks. Andrew Jack, Moscow

NO-FLY ZONE

Iraq claims western attacks

Iraq yesterday said one person was injured when western aircraft attacked targets in the country's western-imposed southern no-fly zone. "Hostile formations (of warplanes) bombed some service installations and military positions in the southern area and the bombings led to injuring one citizen," the official Iraqi news agency INA quoted a military spokesman as saying.

The spokesman said Iraqi fighter jets "confronted the warplanes and forced them to flee to their bases in Kuwait and Saudi Arabia". There was no immediate confirmation of the strikes from the US or Britain, which are imposing the no-fly zone in southern Iraq. Reuters, Baghdad

FTC clicks on to fears over data on web users

By Roger Taylor
in San Francisco

A team from Georgetown University in Washington is soon to present a study to the Federal Trade Commission (FTC) on internet sites and how these collect personal information about users.

The report is expected to reignite a long-running debate on internet privacy and the FTC has warned it will regulate unless there is evidence that web sites are publishing clear policies on how personal data are used.

However, the political argument could become sidelined by the technological battle between vendors and consumers. A spate of new services to be launched over the next few months aims to shift the balance of power regarding personal information away from internet companies and into the hands of internet users.

At present there is no privacy on the internet. Internet service providers know an individual user's name and address and can track every single move the user makes on the web. And the information is held on record-keeping e-mail sent and every message posted to a news group is almost certain to leave a trace.

Internet marketing groups are now collecting and storing complete "clickstream" data about a user's every move. The information is collected anonymously - the user is identified only by a number left on their computer called a cookie - but for a company which also has a user's name and address it is remarkably easy to link the two, even if not officially permitted.

The FTC wants internet companies to inform their customers about the information they collect and what they do with it. But some users feel unsettled that such complete information about them exists and is accessible. They are disturbed that their mailings to an Irish Nationalist news group 10 years ago, or their interest in exotic dancing might become available, whether legitimately or not. Assurances from internet companies regarding this data may not be sufficient for some users.

Privaseek, a Louisville, Colorado start-up, is one of several new businesses aiming to put more "information control" in the hands of the internet user. Its planned Persons service will allow people to volunteer personal information and then stipulate how it is to be used. The



The US Federal Trade Commission wants clear policies on how personal information on internet users is distributed. Reuters

company will then deny access to this information to any site which does not meet its privacy standards. Furthermore it will demand discounts on behalf of customers in return for personal information.

A more ambitious goal is being set by Lumeria, a Silicon Valley start-up which intends to launch its Super-profile service this month.

Unlike Privaseek, which is primarily concerned with volunteered information, Lumeria aims to give the internet user control over both volunteered personal data and the clickstream data collected from internet movements. The customer

data and clickstream information. Companies could then be sued for copyright infringement if they tried to collect similar data.

Neither the Lumeria nor Privaseek service offers complete peace of mind. In both cases, there is still a complete record of a user's internet life. If an aggrieved party alleged an online profile labelled them, they could get a court order to retrieve this information.

A Montreal-based start-up is moving to address that problem. Zero Knowledge will next month launch a service which will encrypt a user's communications across the internet. As a result even internet service providers will have no knowledge of the individual's online activities. Nor will Zero Knowledge, which will break a subscriber's communications into three pieces, unscramble them at three randomly selected computers and then pass the information on to the internet.

The only way to find out what the communication was and who it was from would be to snoop on all three unscrambling computers at the exact time the communication passed through them. "This is a system a Chinese dissident could rely on," says Austin

Hill, who set up the company. Fred Davis, head of Lumeria, wants to combine Zero Knowledge's technology with his own to create a complete and unbreakable privacy shield for internet users.

However, such a service could bring its own problems of unaccountability with people hiding behind anonymity to label people or push pornography.

Mr Hill argues that people will have to learn not to trust anonymous users, spreading gossip on the internet just as they would not trust an anonymous note pinned to a notice board in the real world.

Whatever the pros and cons, the technology will be available very soon and could make the concerns of the US Congress about internet privacy increasingly irrelevant.

If the FTC has succeeded in persuading internet companies to adopt a more responsible attitude to the information, users may decide they do not need the new privacy services.

But there are likely to be many who choose not to rely on the protection of a company's policy statement when there are alternatives which provide a far greater degree of certainty.



A few million years ago, in a cave lit by dim sunlight, man first marked his presence in the world. Announcing his ambition using flesh and earth. Several hundred thousand generations later, man's desire remains steadfast. But the tools have got better. Smarter. Faster. Together they have created businesses that have changed the world. And in the process, they have left their own mark. A poetic circle: computers created by man, used by man, changing mankind.

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JAN 10 1999

BRITAIN

LEGISLATION MINISTERS CONCERNED THAT PUBLIC AUTHORITIES ARE NOT READY FOR INCORPORATION OF EUROPEAN CONVENTION

Government may delay human rights act

By Andrew Parker, Political Correspondent

The UK may decide to delay incorporation of the European convention on human rights into law because government departments and other public authorities are not ready to cope with its impact.

The Human Rights Act reached the statute book in November but the government is refusing to give a date when it will come into force.

The act gives unprecedented powers to judges and will drag them into politically contentious disputes. People will be able to seek judicial review of decisions by government departments, non-elected advisory bodies and local councils.

In a parliamentary question, Lord Williams of Mostyn, a Home Office minister, was asked if the government intended to bring the act into force during 2000. He replied: "We have not yet reached a final view on

when to bring the human rights act into full effect. We will do so as soon as we can." A Home Office official said the act may come into force next year, but added that the government could not guarantee it.

Lord Williams heads a taskforce charged with raising awareness about the impact and scope of the act. A £4.5m (£7.2m) training programme has been established for the judiciary and public authorities that will be affected.

Under the act, judges will be able to declare that domestic legislation does not comply with the European convention, obliging the government of the day to amend the offending act. The courts will be able to strike down legislation passed by the Scottish parliament if they believe it contravenes the convention.

Ministers are concerned that the courts could become bogged down with cases brought by people claiming their rights have been

infringed unless judges take a robust approach to questions of law. They are also concerned that public authorities are not fully aware of the impact of the European convention.

The main rights protected by the convention include the right to life, the prohibition of torture, the right to a fair trial and respect for private and family life.

Protocols ratified by the UK add other rights, including the right to peaceful enjoyment of possessions

and the right to education. Among the areas where ministers fear a plethora of litigation are challenges to the anti-terrorism legislation covering Northern Ireland.

The UK was one of the 10 original signatories to the convention in 1950. The convention has been binding on the UK since it came into being in 1953. But remedies had to be sought at the European Court of Human Rights in Strasbourg because the convention was not incorporated into UK law.

Scottish elections herald a fight to save the United Kingdom

Andrew Parker reports on a campaign led by Gordon Brown to secure a poll victory for Labour against the separatist party



UK devolution

Over the next four weeks, the governing Labour party is fighting to save the United Kingdom. The first elections to the new Scottish parliament and Welsh assembly on May 6 will decide whether voters choose devolved administrations inside the UK or independence outside it.

The government will be wounded, potentially fatally, if its radical constitutional reforms herald the break-up of the UK.

Leading the charge to save the UK will be Gordon Brown, the chancellor of the exchequer. Ever since opinion polls began to suggest last summer that the Scottish National party could win control of the Edinburgh parliament and realise its goal of an independent Scotland, Mr Brown, whose parliamentary seat is in Scotland, has been developing a strategy to secure victory for Labour.

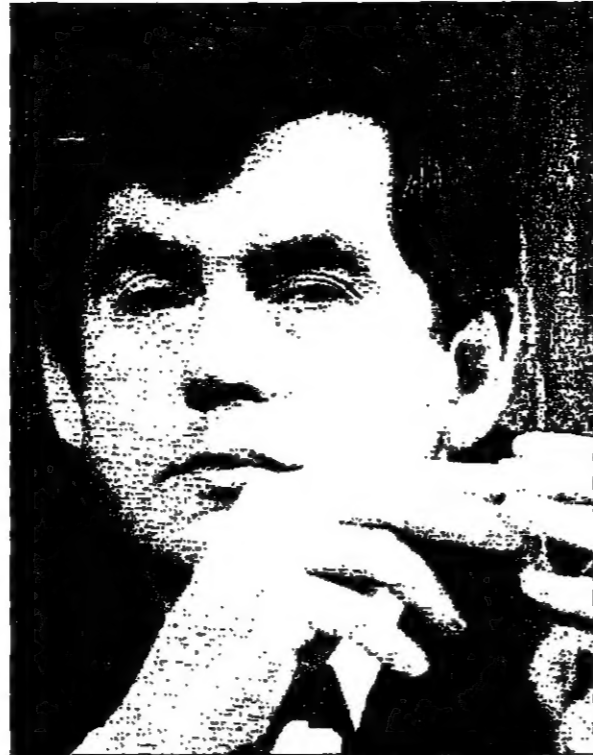
He is confident of that strategy. "Of course we are going to win," Mr Brown says. He claims the SNP has exposed itself as "anti-

fairness, anti-business and anti-internationalist".

Mr Brown and his colleagues seemed to face a Herculean task. Despite Labour giving Scotland its first law-making parliament for 300 years, the ruling party has shown a remarkable capacity to shoot itself in the foot north of the border since the 1997 general election. Allegations of sleaze have been levelled against Scottish Labour MPs, while some of its local councils there showed scant regard for financial probity.

Enter Mr Brown. Donald Dewar, chief minister for Scotland in the UK government, masterminded the legislation to establish the Scottish parliament - but it was Mr Brown who sought to contain the nationalist argument that devolution is simply a halfway house to independence. His book *New Scotland, New Britain* argued that in the age of global economies Scotland must remain part of a multinational state.

Today it is Douglas Alexander, Mr Brown's protégé and another local Labour MP, who runs the party's Scottish campaign in Glasgow. After months of gloom and doom, Labour is bullish. It believes the SNP has made



Gordon Brown: the chancellor "takes nothing for granted" Dave Gadd

two gaffes by proposing to use the parliament's power to reverse a cut in income tax and by criticising NATO air strikes on Yugoslavia.

Citing the example of Quebec, where voters narrowly rejected independence from Canada in a 1995 referendum, Mr Brown predicts Scots will snub the SNP. "What people should understand is that the SNP, if they get a majority, would open or try to open negotiations for independence the day after the election."

When Mr Brown decided in last month's annual Budget to cut the basic rate of income tax by a penny, the SNP pledged to reverse it by using the Scottish parliament's revenue power. Mr

Brown believes he caught the SNP out. The separatists argue that their proposal will prove popular in a country with a stronger communitarian tradition than England, and say the £200m (£370m) raised would be spent on education and health. Moreover, the proposal has successfully focused public debate on devolution rather than on independence. The SNP wants to fight the elections on a gradualist agenda: demonstrating it can run a devolved administration responsibly before asking Scots to vote for independence in a referendum.

Mr Brown is having none of it. Under independence, he warns that Scots would face even higher taxes. He is equally unforgiving about the SNP's tentative plans for a separate Scottish currency. "There is no desire for a separate Scottish pound. The danger of voting for the SNP is people... could be plunged headlong into a situation where the SNP are negotiating for a separate Scottish pound with all the dislocation that would mean for industry and the loss of what has been an effective single market throughout the UK for many years."

He also questions the SNP's calculation that Scotland could move effortlessly from using UK sterling to the euro if an independence referendum follows a UK referendum on membership of the single currency.

The chancellor is less willing to discuss the government's funding mechanism for the devolved assemblies. Many Labour MPs with English constituencies are jealous of the higher spending per head in Scotland, and Mr Brown is under pressure to justify the *status quo* by conducting a new assessment of public need.

Such an assessment, 23 years after the last one, would almost certainly result in a cut to the £14bn grant about to be handed to the Scottish parliament. Pressed on why England should continue to in effect subsidise Scotland, Mr Brown says: "We are pursuing financial arrangements that lasted under the last Conservative government for 18 years... It's not the right time to announce a change of policy." Indeed, a new assessment of public need would be seized on by the SNP as evidence of Labour failing to stand up for Scotland's interests.

Meanwhile, there are elections to be won and a union of countries to be preserved. Mr Brown is right to say "we are taking nothing for granted": until recently Labour did take Scotland for granted, having dominated Scottish politics for decades. The May 6 elections will be the test of whether his hard work has paid off.

NEWS DIGEST

NORTHERN IRELAND

Peace process remains stalled, says Sinn Féin

Sinn Féin, the political wing of the Irish Republican Army, yesterday said the new declaration on the Northern Ireland peace process had failed to break the deadlock over the decommissioning of terrorist weapons.

While the pro-British Ulster Unionist party claimed the declaration by the UK and Irish governments would lead to IRA decommissioning within weeks, Sinn Féin said the peace process was stalled.

Tony Blair, the UK prime minister, said he was convinced that the Good Friday peace agreement would be finalised. "We have all come too far to turn back now," Mr Blair said.

The declaration, which builds on the accord, aims to circumvent the impasse in which the UUP refuses to sit with Sinn Féin in the planned Northern Ireland power-sharing government until the IRA begins decommissioning weapons. The compromise envisages the IRA putting some arms "beyond use on a voluntary basis" to pave the way for Sinn Féin taking seats on the executive.

Gerry Adams, Sinn Féin president, said at a rally to mark the anniversary of the 1916 Easter rising against British rule in Dublin: "One of the provocations has been the demand on the IRA to disarm. This is something which the IRA has made clear it feels under no obligation to do." Andrew Parker, London

BARINGS COLLAPSE

Leeson to be released in July

Nick Leeson, the disgraced former Barings Bank trader, will be released from prison in July, it was reported yesterday. Wong Kan Seng, Singapore's home affairs minister, told the Sunday edition of the South China Morning Post that Mr Leeson, who has cancer, would be released from Changi Prison on July 3 because of good behaviour and not because of his health.

The minister was quoted by the Hong Kong newspaper as saying: "Under our prison regulations we don't release a prisoner just because he is sick. He has to serve his sentence. If he can't survive his sentence in the opinion of the doctors, we will consider giving him a remission."

Mr Leeson still has three years left to serve of the six-and-a-half-year sentence he received in 1995 over an \$875m (\$1.4bn) scandal that brought down Britain's oldest merchant bank.

SINGLE CURRENCY

Directors' body warns on euro

British business is better off outside the euro-zone, and the UK should keep the pound for the foreseeable future, according to the Institute of Directors. A report published today says institute members and their employees should vote against joining the euro in any referendum on Britain's membership of the European single currency.

Monetary union will lead to fiscal union. Moves towards fiscal harmonisation will be accelerated by the euro.

When combined with the unfunded public pension liabilities in continental Europe, in the long term this could mean much higher taxes in the UK, the report says. Andrew Balls, London

WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

TODAY

Annulite 2 1/4% £0.625
Annulite 2 1/4% £0.625
Bradford Property Trst 10 1/4% Cn Pl 5.25p
Browning-Ferris \$0.19
CRH 7 1/4% Grns A Cn Pl £5.115p
Compass 5 1/4% Cn Pl 2007 £143.75
Consolidated 2 1/4% £0.625
Premier 50.10
Rank Fin 6 1/4% Bd 2000 £57.50
Seaboard 1.5p
Treasury 3% (1978) £1.50
Treasury 6% 2002/05 £4.0

TOMORROW

Abbey National 5 1/4% Non-Cn £ Pl 3.8125p
10 1/4% Non-Cn £ Pl 4.8687p
Do 10 1/4% Cn Pl 2007 £55.1125
Aberforth Spk Lmt Trst 2.5p
Do Units 2.5p
Airtours 5p
Alders 5p
Allied Leisure 0.7p
Allied Textile 10p
Almeco 2.45p
Almeco 5 1/4% Cn Pl 2.75p
Anglian Water 12.8p
Ariston 0.483p
Asset Mgmt Inv 3p
Asstac Britn Foods 6.25p
Asda 2.2p
Avalon Assets 0.15p
Avoco 3.5p
Bankers Inv Trst 0.44p
Beale 3.25p
Beltway 9 1/4% Cn Pl 2014 4.75p
Bkay 2.6p
Borden Television 2.7p
Bourse Ind Prop 0.65p
BP Amoco 6.115p
Brewin Dolphin 8p
British Land 6.73p
British Sky Broadcasting 2.75p
Briton Estate 3.465p
Brookside 3.5p
Brunel 0.5p
BTR 0.8p
BTR Sles 1.485p
Capital Radio 10.5p
Carnell Eng 3.44p
Castell Prop 2.4p
Carton Comm 8.25p
Casualty Bro 0.73p
City of London Inv Trst 1.72p
Cleveland Trst 2.75p
Columbus 0.2p
Daily Mail & Gen Trst £12.50
De La Rue 4p
Dharm 3.5p
Dorling Kindersley 3.1p
Electronic Data Processing 1.535p
English & Scottish Inv 2.45p
Erosion Ser B Non-Fest £502.0
Eurocopy 0.8p
Europe Election 2.15p
Fairplay Consulting 0.048p
Filinvest 0.3p
First Choice Holidays 2.2p
Germans Scotland Inv Trst 2.7p
Do Package Units 18.75
GEC 4.2p
Granville 8 1/4% Inv Un £4.0
Do 9 1/4% Inv Un £4.5625
Hawth 1.32p
Hickson Int 0.8p
Hydr 34.2p
Hydro-Dynamic 1.3p
IAP 2.5p
JWE Telecom 0.65p
Jarvis 3.8p
MBC Advanced Tech 2.8p
Lambro 4.51p
Lawrence 2.2p

LINTAS

4.5p
London Scottish Bank 2.68p
Lorich 7.2p
Lyrix 1.7p
Marston Thompson & Evershed 12.5p
McLeod Russell 4p
McMullen 3.25p
Do 10 1/4% Cn Pl 5.25p
Mid Water Board Grand Junction
Water 3 1/4% Do £1.50
Do West Midland Water 3 1/4% Do £1.50
M & G Equity Inv Trst 0.99p
Do Package Units 0.99p
Mid Kent Water 14.77p
Mid Wynd Int Inv Trst 3.3p
Miner Estates 1.421p
Minerva 1.7p
Mills 1.21p
National Power 8.6p
Northern Power 2.6p
Paragon 1.7p
Park 1.1p
Peterson Zochonis 5.85p
Do A NVG 5.85p
P&O 3.2p
P & O Ltd 13.94p
Penson 14.7p
Pillington 1.75p
Pizzagroup 1.3p
Porter Chadburn 0.315p
Primary Health Props 3.1p
PWS 0.5p
Quivle Munro 4.5p
Radian Props 1.3p
Railtrack 6.7p
Ratex 5.75p
Recon 6.5p
Do 7 1/4% Cn Pl 3.885p
Sile 3.3p
Schroder Spk Fd 2.5p
Schroder UK Grwth Fd 0.3p
Scottish Highland Hotels 2.6p
Scottish Inv Trst 2.85p
Seacon 0.75p
Sears 2.5p
Seven Trent 3.84p
Sims Food 0.25p
Style 4.55p
Sutton Harbour 1.4p
Swedlow 7.5p
Tate & Lyle 11.7p
Thames Water 14p
Do B 2.9525p
Ternyella 0.131p
United Utilities 28p
Voke 8.2p
Widney 2.5p
Yonshire Water 6.75p

WEDNESDAY

APRIL 7
Adco 3.5p
Allied London Props 2.86p
Armstrong 0.3p
BOC 15.7p
Black 8.5p
Bradford & Bingley Bldg Scty 13%
Perm Int Brg £150.0
British Airways 5.1p
British Assets Trst 1.24825p
Capital & Regional Props 1.3p
Chemist Int 0.35p
Chemring 3p
Domino Printing Sciences 8.5p
Europower 0.31p
Fayrewood 0.54p
PI 0.55p
Piering Worldwide Inc Inv Trst 1.125p
Do Units 1.125p
Pyfco £0.027132
Gallford 0.5p
Gartmore European Inv Trst 1.5p
Hawthorn Smelter Asian Cn Trst £0.03
Hammarson 4.12p
Hawthorn Brewery 5p
Do A Lmt/Vtg 5p
Hidvorn 2.25p
Hill & Smith 2.1p
Jas 3.35p
Jagat European Inv Trst 2.05p
J. Norton Parfums 91.18

THURSDAY

APRIL 8
Abbey National Treasury 5 1/4% Gtd Bd 2004 £450000.0
Bridestock 2.1p
Break for the Border 0.7p
Chrysalis 2.75p
Colfax & Fowler 1.17p
Compass 3.8p
Countrywide Props 2.5p
Crest Nicholson 3.25p
Elexco Inv Trst 6p
Estates & Agency 6.5p
Eve 2.61p
Fairfield Ent 3.5p
FR 1p
First Leisure 6.65p
Firm Riscion 2.25p
GS Int 1.5p
Jovon Stroud 5.5p
Kewell Systems 4p
Mercedes (Joint) 4.8p
MSW Tech 0.75p
Murray Emerging Economies Trst 0.55p
Oxford Instruments 2.4p
Saville Gordon Estates 1.1p
Somerville 4.5p
Stals 1.75p

FRIDAY

APRIL 9
Alumac 2.45p
BND Secs 8.5p
CALA 1.65p
Courts 1.05p
EMI 4.25p
Enterprise Cap Trst 1p
Fininvest 2.5p
Genor 10.505
Goodman Fields ASO.035
IMS 2.43p
Investors Cap Trst Inv Anly Res/Vtg 1.48p
Do Units 1.48p
Manganese Bronze 4p
Martin Currie High Inv Trst 2.15p
NHP 2.4p
Pace Micro Tech 0.25p
Pictet British Inv 1.75p
Range Cooler 0.05p
Reaboune Merit Life Sciences Inv Trst 0.8p
Scottish Asian Inv 1.03p
Do Pig 1.03p
Slug & Lettuce 3.025p
State Elec Comm of Victoria 11% Gtd Nis 2002 AS110.0
Trent 4.4p
Trst of Property Shares 2.12p
WF Elec 5.25p
Werner Estate 8.8p
Waterfall 0.25p
Williams Non-Cn B Pl 0.804951p
Worthington 1.065p
Wylio 1.8p

SATURDAY

APRIL 11
Islington 12.85% Rd 2007 £5.325

SUNDAY

APRIL 11
Islington 12.85% Rd 2007 £5.325

UK COMPANIES

TODAY

Annulite 2 1/4% £0.625
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Bradford Property Trst 10 1/4% Cn Pl 5.25p
Browning-Ferris \$0.19
CRH 7 1/4% Grns A Cn Pl £5.115p
Compass 5 1/4% Cn Pl 2007 £143.75
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Do Units 2.5p
Airtours 5p
Alders 5p
Allied Leisure 0.7p
Allied Textile 10p
Almeco 2.45p
Almeco 5 1/4% Cn Pl 2.75p
Anglian Water 12.8p
Ariston 0.483p
Asset Mgmt Inv 3p
Asstac Britn Foods 6.25p
Asda 2.2p
Avalon Assets 0.15p
Avoco 3.5p
Bankers Inv Trst 0.44p
Beale 3.25p
Beltway 9 1/4% Cn Pl 2014 4.75p
Bkay 2.6p
Borden Television 2.7p
Bourse Ind Prop 0.65p
BP Amoco 6.115p
Brewin Dolphin 8p
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Kewell Systems 4p
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Goodman Fields ASO.035
IMS 2.43p
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INSIDE TRACK

PROFILE ANGEL CORCOSTEGUI

Man of detail with a big vision

The chief executive of Spain's largest bank believes the industry's merger mania is unstoppable, writes Tom Burns

Most Saturday afternoons for the past three years, Angel Corcostegui has gone to a Madrid country club for a one-hour golf lesson. What is odd is that he has yet to play a round of golf. Stranger still, he is in no hurry to do so.

"The truth is I'm fascinated by the technique," says the chief executive of Banco Santander Central Hispano, the euro-zone's newest merged bank and its third largest in terms of market capitalisation. "I like getting to the bottom of things."

Friends of Mr Corcostegui, a Bilbao-born, Jesuit-educated testotaller who will be 48 this year, are not surprised by his obsessive interest in the finer points of swinging a golf club.

"He is a master of detail and he programmes himself," says one friend who first met him more than 20 years ago when they were both working on Wall Street. "If he has one fault it is his inability to relax."

"I am the sort of manager who likes large, complex projects. I want to understand the whole organisational base of big corporations"

A degree in civil engineering might explain Mr Corcostegui's linear approach to life. He expressed a core belief last month when he pep-talked nearly 2,000 managers of Banco Santander and Banco Central Hispano at a "happy-to-meet you" senior staff convention that marked the \$35bn (\$21.8bn) merger.

"Whatever cannot be measured doesn't exist," he told the BSCH troops.

"Take quality of service, because we are in the business of providing financial services and service is therefore of capital importance," he explained. "It either exists or it doesn't, and you can measure it by marking off from one to 10 whether the client is getting efficiency and speed, smiling, personalised attention, a clean environment and so on."

Such firmly held ideas matter because Mr Corcostegui is in the driving seat of an institution that stole a march on the merger fever that has gripped European banks since the launch of

defensive moves. "This business is about giving the best service at the lowest cost and the only way you can lower the cost to income efficiency ratio is through economies of scale."

Mr Corcostegui is convinced that national banking mergers in the euro-zone will gather pace until 2002 "which is when people will actually have euros in their wallets". But he believes such ventures will represent only the first of three concentration phases: just as soon as there is a true euro-

consumer and real euro-market, phase two, involving cross-border mergers within the euro-zone, will begin.

He sees his task now as preparing for phase two because he believes BSCH and other euro heavyweights will draw the euro-zone banking map between them. His starting point is a network of cross-share arrangements between BSCH and Royal Bank of Scotland, Italy's San Paolo IMI, Société Générale, Germany's Commerzbank and Banco Comercial Português.

But he is already thinking about an even larger playing field. "Phase three will involve great euro banks and great US banks seeking transatlantic mergers."

Mr Corcostegui, who buys management books galore every time he visits New York, is fired by such prospects. "I am the sort of manager who likes large, complex projects. I want to understand the whole organisational base of big corporations."

He talks about eliminating bureaucracy and about "the beauty of integrating the whole with a clearly defined vision that is very sensitive to the human factor."

He is also keen on "creating baskets of business". At BSCH there are three:

- The core banking business in Spain
- The group's industrial assets
- Its large financial services franchise in Latin America.

Mergers suit his widely admired intellect and they clearly challenge him. His enthusiasm reflects a long acquaintance with banking mergers. He has learnt how to fight off unwanted takeovers, how to cement friendly unions and how to rescue faltering alliances.

By the time Mr Corcostegui was headhunted by Banco Vizcaya in 1987, he had spent 10 years in the US. He had earned a doctorate in finance from Wharton, done a stint at the World Bank, and worked at Chase Manhattan, where he rose to

become chief economist.

The year after he joined Banco Vizcaya, he masterminded its successful resistance to hostile overtures by the Kuwait Investment Office. He was at the centre of the bank's subsequent merger with Banco Bilbao, another Basque bank, to create BBV, the largest bank at the time in Spain. In 1994 he left BBV to become chief executive of Banco Central Hispano, which was reporting tumbling profits. Mr

Corcostegui drew on reserves to provision BBV's damaged loan portfolio, slashed its dividend payout and took two years to stem the bank's income haemorrhage. In 1997, as BBV recovered its earnings momentum, he was appointed executive vice-chairman and heir-apparent to José María Amusátegui, the president. "Angel's strength is his ability to have a very clear concept of where we are and where we are going," says a colleague who has worked

closely with Mr Corcostegui at BBV. "He has an extraordinary ability to communicate his strategy and he does this calmly, without pressure, encouraging and supporting everybody involved."

When Mr Amusátegui began secret merger negotiations late last year with Emilio Botín, Santander's chairman, neither had any doubts that Mr Corcostegui, although the CEO of the smaller of the two banks, was the ideal candidate to run the sum of their parts.

Mr Botín, 64, whose father and grandfather also presided over Santander, will co-chair BSCH with Mr Amusátegui until 2002, when the latter will stand down to leave Mr Botín as sole chairman.

Perhaps by then the cool, calculating Mr Corcostegui will have played a full round of golf. He will certainly have excellent company: Mr Botín is a golf fanatic, and one of his daughters is married to Severiano Ballesteros.

Essential Guide to Angel Corcostegui

Born: Bilbao, Spain, 1951.
Family background: The Corcosteguis have been ophthalmologists in Bilbao for six generations. His father, two uncles and two brothers are all eye surgeons. "When I was a kid, talk at home was about cataracts," he says.
Academic qualifications: BSc (civil engineering) Santander University, PhD (finance) Wharton College, Philadelphia.
Employers: World Bank, Chase Manhattan, Banco Vizcaya, Banco

Bilbao Vizcaya, Banco Central Hispano, Banco Santander Central Hispano.
Working hours: 08.00-22.00 (includes a business lunch). Likes to be home by 22.30 for a family dinner. Takes reports home at weekends and works on them on Sunday afternoons.
Bolt hole: an old country home in Santander which he bought in 1987 and is still rebuilding. He spends August there reading the business books he has accumulated during the

year and 19th-century novels. If invited to the country retreat in winter, wrap up: "I haven't been able to afford central heating yet," he apologises. Don't ask about Ana Patricia Botín of the Santander banking dynasty and eldest daughter of BBV co-chairman Emilio Botín. She resigned as head of the group's wholesale finance unit after a magazine article said she was the power behind the throne and tipped her to succeed her father. Aides tell you to avoid the subject.

TECHNOLOGY ID CARDS

Passport to maximum security

Judy Dempsey on an Israeli company's high-tech approach to producing ID documents

When Moshe Gold unlocks the thick, main door to Supercom's headquarters at Kfar Saba, near Tel Aviv, he knows that there is nowhere that he can hide from his colleagues.

The small electronic device that scans Mr Gold's ID card on entry will record his movements throughout the day. Information fed into a computer will show what time Mr Gold arrived at the office and in which room he is working at any time.

And just in case there are any doubts about the whereabouts of Supercom's chief financial officer, small cameras and extra sensory devices throughout the building track his movements. Some of the cameras are visible. Others are not.

Supercom prides itself on its in-house security. This is hardly surprising, since this small Israeli high-tech company which specialises in producing national identification documents is fast becoming a player on the world market.

The company cannot afford breaches of security. For it is its ability to provide maximum security with maximum flexibility and speed that has persuaded governments ranging from China and Hong Kong to Slovakia and Britain, to hire Supercom to supply them with ID cards, passports or national driving licences.

Enhancing security has become big business, especially following the end of the cold war. But while civil liberty groups believe big brother is invading the privacy of the citizen, western governments see it differently.

They have become increasingly anxious to maintain border controls on the flow of drugs and laundered money, while new countries that have emerged from the collapse of the former Soviet Union have been grappling with setting up new institutions, especially ones designed to combat crime and the Mafia.

Manfred Mandt, vice-president for the national security solutions division at Siemens, the German conglomerate, believes such a market to create secure national identity cards is potentially worth about \$30bn as governments want to know who is living within their borders. In Venezuela alone, says Mr Mandt, about 70 per cent of all ID documents are either forged or duplicates.

Against such a back-

ground, Supercom, over a decade old, believes it has the track record and experience to make ID cards much more secure. Indeed, Siemens recently joined forces with Supercom to provide the Brazilian government with passports, largely because the Israeli company was flexible, unobtrusive and had the technology.

"We can supply governments with a turnkey project," explains Eli Rozan, Supercom's president and founder. "But more important, we can respond to their needs. We offer an integrated package, providing the manufacturing, software and training, as well as providing up to 17 security elements in one durable ID document."

For example, some driving licence ID cards are made from a PVC plastic that can easily break, be forged or disintegrate after two years of wear and tear. What Supercom has devised is a card combining polyester and polyethylene materials that can last up to 10 years.

Among the seven layers of a typical Supercom ID card, which can transmit information without making physical contact with a sensor, is a tiny chip. Inside the chip is information that national governments have requested for inclusion in the ID card. Not only can the information be updated - the ID can become a smart card containing a separate health insurance ID, driving licence, credit and cash card - it also contains additional security features. These include an invisible photograph of the original card holder that can only be seen by a special scanner. That photograph is also stored in the government or relevant agency's computer.

"In any case, if there is any attempt to erase the information, the card is destroyed. It becomes worthless for the forger," says Avi Landman, Supercom's R&D manager. And that, he adds, is one of the company's main selling points.

To dent markets dominated by its main competitors - International Business Machines, Unisys, Lockheed and De La Rue - Supercom wants to expand its research and development division and increase marketing. It even has its eye on the US. But for this it requires more capital - it had revenues of \$17m in 1997.

This month Supercom intends to make an international public offering to raise about \$30m on Easdaq, the Brussels-based European stock exchange for small companies.

But Mr Gold insists the company would resist any takeover attempts, being anxious to retain its flexibility and integrated network of specialists.

BUSINESS TRAVEL MEDICAL EMERGENCIES

The heart of the matter

Airlines are beginning to carry defibrillators to treat cardiac arrests, but the issue is a controversial one, says Farrol Khan

The sudden death of a relatively young business traveller following a mid-air heart attack has cast a spotlight on what medical equipment airlines should carry on board.

Stephen Somes, a 37-year-old investment manager, was taken ill on a United Airlines flight from Boston to San Francisco in October 1998. Three doctors who were also on board, including a specialist in emergency medicine and an emergency medical technician, tried to help him, but without success.

The aircraft's on-board medical kit did not contain a defibrillator - a shock machine to restart the heart - or other equipment or drugs to treat a cardiac condition.

It is estimated that about 1,000 passengers die as a result of heart attacks on aircraft worldwide each year, but only a handful of airlines carry comprehensive medical kits to deal with cardiac arrests.

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Mr Somes' widow is suing United in Massachusetts for not providing the equipment on board that might or might not have saved his life.

United applied for the case to be dismissed, arguing that it needed Federal Aviation Administration approval before it supplemented or substituted items in medical kits. It also suggested that the FAA, and not the airline, was responsible for addressing the health and medical needs of the passengers. But Judge Morris Lasker ruled that the case will go to trial by jury later this year.

"We are pleased with the result," says Ronald Kidd of Robinson, Donovan, Madden and Barry, the US lawyers acting for the widow. "United was aware that a high percentage of such deaths were cardiac-related and that its emergency equipment was inadequate to deal with these emergencies. It was very frustrating for the doctors who opened the emergency kit to discover that it was of very little practical value."

United has declined to make any comment on the case for legal reasons.

British Airways recently announced that it would be equipping 250 long-haul aircraft with defibrillators. The airline will also provide a link between cabin staff, trained to handle the machines, and ground-based medical staff. The equip-

ment, the airline says, will reduce the need to ask passengers with medical knowledge to volunteer in the case of illness. "We applied the decision of leading airlines to install defibrillator programmes," says William Gaillard, director of corporate communications of the International Air Transport Association. "This is one more quality

"On a jet with 350 passengers, you really need aeromedical technicians"

item for passengers who can only benefit from it. However, we do not envisage that this policy will be carried out worldwide because of liability and training issues."

The reaction of the International Air Passengers Association (IAPA) is more cautious. "It can't be a bad thing if it saves a life," says Hans Kraemer, senior vice-president of the association. "But how much value is it if it is used by unskilled cabin crew? It is not only a defibrillator but other things involved. On a wide-bodied jet with 350 passengers, you really need aeromedical technicians. I hope that the

airlines are not using this development as an excuse for not introducing them."

According to George Tompkins, a US lawyer whose New York practice Roseman & Collin represents airlines, the installation of defibrillators is a big mistake. It increases the public's expectations and airline liability may rise, he says.

Alex Wolbrink and Donato Borillo, in a recent paper in Aviation Space & Environmental Medicine, indicate that even if airlines invest in these machines, which cost \$3,000 (£1,900) each, and train cabin staff to use them, "relatively few lives may be saved".

Qantas has had defibrillators on all its aircraft since 1991 and has used them in 27 in-flight cardiac emergencies. Of the six passengers experiencing ventricular fibrillation - for which the machines are designed - only two survived. "The availability of rhythm monitoring enhanced medical care," says Dr Eric Donaldson, the airline's medical director, "and improved information on whether to divert or not."

The Aerospace Medical Association suggests it would be far more effective to inform passengers of the 10 cardiovascular conditions that are high-risk. They include angina, myocardial infarction and hypertension. Passengers would therefore be able to make an informed decision about whether or not to fly.



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Notice pursuant to art. 36 of Consob Resolution No. 17528 dated July 11, 1998

ORDINARY AND EXTRAORDINARY STOCKHOLDERS' MEETING
An Ordinary and Extraordinary meeting of the Company will be held at the registered office, Via Postrale 25, Ponte di Piave (Treviso) at 11.00 a.m. on April 30, 1999, or at second calling, if required, at the same place and time on May 6, 1999, to resolve on the following:

AGENDA

- 1) Reports of the Board of Directors on operations during 1998 and the Reports of the Board of Statutory Auditors, the statutory financial statements and consolidated financial statements as of December 31, 1998 and associated resolutions;
- 2) Appointment of the Board of Directors, subject to determining the number of its members;
- 3) Appointment of the Board of Directors and the Board of Statutory Auditors;
- 4) Request for authorisation to purchase and issue treasury stock for a total par value not exceeding Lire 10,000,000,000 and related conditions;

- 1) Proposal to delegate authority to the Board of Directors as per art. 2443 of the Italian Civil Code to increase the capital stock up to a total nominal amount not exceeding Lire 100 billion via the issue of ordinary and/or convertible shares, on one or more occasions;
- 2) Proposal to delegate authority to the Board of Directors as per art. 2440 of the Italian Civil Code to issue bonds, on one or more occasions, convertible or non-convertible into ordinary and/or savings shares and/or can warrants for a total par value not exceeding Lire 100 billion;
- 3) Resolving amendments to the Articles of Association.

Stockholders eligible to attend are required to deposit the share certificates prescribed by art. 34 of CONSOB Resolution No. 17768 dated 23 December 1998; issue of said certificates must be requested from the respective holders. Holders of shares which have not yet been dematerialised must hand over their shares to a broker so that they can be registered with the central administration system for dematerialisation, in compliance with art. 31 of the above-mentioned resolution; and then ask for the above-mentioned certificates to be issued. Please note that the right to convert savings shares into ordinary shares will be suspended until the day after the day fixed for the meeting and, in any event, the day following the termination date of any dividends which may be authorised by the meeting.

Ponte di Piave, March 24, 1999

for the Board of Directors
The Chairman
Giuseppe Stefanel

INSIDE TRACK

BUSINESS EDUCATION EUROPEAN SCHOOLS

Getting to grips with quality

Accreditation has thrown into relief how Europe measures up with North America, says Della Bradshaw

European business schools lag behind their US counterparts in academic research and the integration of technology in teaching methods.

But they do shine in their international perspective and are world leaders in distance learning techniques, according to one of the most in-depth assessments of European management education to date. It was conducted by the European Federation for Management Development (EFMD), the European business school trade body.

The publication of the research follows the completion of the first round of EFMD's accreditation process. So far 17 schools have been accredited and three have failed the process.

More than just a critique of the state of play in European business schools, Equis (the European quality improvement system) is a sign that Europe is finally getting to grips with the issue of quality in management education.

Many of Europe's best known deans have been pushing through the scheme, including Antonio Borges from Insead, Carlos Cavallé from IESE in Spain and Wil Foppen from the Rotterdam School of Management.

Although most countries have their own accreditation organisations, EFMD was late in producing a European-wide system. One of the big stumbling blocks was how to inject the international element that would make the accreditation process more than just a mirror of the local assessments, says Michael Osbaldeston, chief executive of Ashridge management college in the UK and vice-president of EFMD.

Only the threat of the American AACSB moving outside its traditional North American boundaries to accredit business schools, and the push by the

Association of MBAs in London to accredit continental European schools, persuaded the EFMD to set up the Equis project in 1997.

Today, the EFMD is largely positive about the idea of working with the two other organisations to conduct joint accreditations, says Gordon Shenton, project director of Equis. "There is a demand on the part of the schools to do this." Earlier this year the AACSB and the Association of MBAs conducted a joint accreditation of Warwick Business School in the UK.

More important to Mr Shenton is the fact that the Equis system has received such a positive response from European schools. "We're very pleased to see that there has been a good, solid take-up of the system."

So far 17 schools have been accredited under the scheme and three have been audited but were not accredited: two French schools, the Groupes École Supérieure de Commerce in Reims and Grenoble, and the International Executive Development Centre in Slovenia.

A further 27 schools have been accepted for the audit process, including three in the UK: Aston, Cranfield and Henley Management Centre.

But EFMD is not restricting itself to Europe: one of the schools is from Australia, the Monash Mt Eliza Business School, and a second from Canada, HEC in Montreal. Some US schools have also expressed an interest in Equis.

As part of its quality improvement remit, EFMD has also started a scheme for schools that are too young or small to apply for full accreditation. The joint European Chinese business school in Shanghai, the CEIBS, is one of the participating schools. Just as notable as the accreditation is EFMD's acknowledgement of many of the problems that European business schools face. It has openly benchmarked European schools against US ones.

In some areas, notably research, European schools acknowledge they are lacking. "But even if all the major schools



feel this is true - that there is a deficit - the European schools are questioning the US model," says Mr Shenton. "We feel more applied research is more applicable."

The adoption of technology to help teaching also receives a passing in Europe, but EFMD acknowledges that the UK leads the world in distance learning technology.

A further big issue for European schools is how to internationalise faculty. In particular, they have to deal with the demands placed on faculty to teach in English as well as the

native language of the school.

Overall, the picture of the European business school scene is one of diversity, says Prof Borges. "The challenges are even bigger in Europe than they are elsewhere. Europe is a less mature and a smaller market than North America. There is more variety and more models of business schools, from universities to management centres and corporations."

New schools from the traditional powerhouse universities, such as the Saïd school in Oxford and the Judge Institute, in Cambridge, are moving forcibly into

the market. In central and eastern Europe schools are opening all the time.

Because European schools are younger and relatively unstructured in their approach, many are vulnerable, says Prof Borges. "They may not last for ever: they have a very mobile faculty." On the other hand, European institutions have enormous flexibility and are more market driven, he says.

Prof Cavallé concludes that age is the biggest factor hampering European schools. "We only need time in Europe. Then I think we can beat them [US schools]."



LUCY KELLAWAY

Developing a sustainable level of waffle

Here we go again, another hare-brained idea as big companies try to convince us they really do have a heart

"We must build, but we must build surely. I say this to you, in the future that is to come..."

I was reminded of Peter Sellers' platitudinous speech by an internal memo sent recently to Shell Expro staff by their managing director.

The subject was sustainable development, the big idea that has been seized upon by frumpy multinationals in an attempt to convince us that they are good, modern corporate citizens.

Shell has made a lot of noise about sustainable development, and last month launched a \$25m (£15.5m) media campaign entitled Profits and Principles to tell the world all about it. The point of this memo was to explain to staff what it meant for them.

"To me, sustainable development is actually very much about business," it said. "It is not about having our head in the clouds, or about pretending to be something we are not... Sustainable development is one expression of how we make our core purpose of helping people build a better world a practical reality."

After a page and a half of this waffle, the memo got to the point and asked: what is sustainable development? The answer was that it is "about balance and integration... It is clear we are on a journey and not aiming at a known end point. For Shell this journey is part of our transformation to become 'top performer of first choice'."

Yes, yes. But what on earth are the poor staff meant to do about it? According to this memo, everyone should ask themselves such questions as "what do those around me understand about sustainable development?", which strikes me as being a touch circular.

There is only one serious question about sustainable development - how it works in practice. What do you do when interests clash? According to Shell's policy statement, "Our Aspirations Our Commitments", the company will "evaluate the economic, environmental and social impact of our options and strive to get the balance right in our decisions".

Everyone clear, then?

I dare say you think you are a great listener. The more senior

you are, the more attached you will be to this view. Yet the chances are that you talk the whole time and have never put your listening skills to the test. And even if you have the self-control to shut up every now and again and let the other person have their tedious, irrelevant, unoriginal say, your facial expression is almost certainly giving you away.

So let me share with you this tip I have just picked up from *Time to Think* by Nancy Kline. Compose your face into an expression that says: "You are good. I am interested. I am not in a rush. Keep going." Now freeze that expression. Stop reading this article and go over to the mirror.

I apologise if the result was so bad as to spoil your Easter weekend. I did try it myself, and was not at all amused at what I saw. According to the author, you should keep looking until you find an expression you would like to talk to. Once you have hit on this perfect look, Ms Kline instructs you to use it with caution. What you should really be is yourself. Or as she puts it, "your truly, interested."

respectful, fascinated self". Some time ago I went on a communication course and was told to blink more and not to be quite so threatening with my chin. I tried to reposition my chin and blink. I managed it for half an hour or so, but found it all-absorbing. Listening at the same time would have been out of the question.

It may not be possible for us to change our faces, but is it possible for companies to change their cultures? The consensus is that not only is it possible but essential. Companies that cannot change will die.

Not according to Nobuyuki Idei, the president of Sony. In an interview with *Fortune* magazine last week, he expressed a view that implies the entire cultural change industry might as well shut up shop.

"A company's corporate culture doesn't really change," he said. "Our corporate DNA has been the same since the age of Sony's founders."

You could say his attitude will be the company's undoing. But I wonder if he isn't on to something. Companies are like faces. You can put on make-up, have plastic surgery. But there are some bits of the way people behave in companies, the way they work, that for practical purposes are best left alone.

lucy.kellaway@ft.com



Sellers: sustainable development 'in the future that is to come' AP



NEWS FROM CAMPUS

Insead launches search for new dean

Antonio Borges, dean at Insead, near Paris, has said he will quit in just over a year, and the school is setting up a search committee to find his replacement, who will take up the post in September 2000.

Insead is one of the few business schools in the world that could appoint a dean of any nationality.

Eighty-six per cent of its faculty are from outside France, and the largest nationality group is American. There are 23 different nationalities represented among the faculty.

Prof Borges may stay at Insead in a faculty position but the smart money is on his returning to his native Portugal to follow a political career.

Insead: www.insead.fr

Wharton names flagship building

Wharton, the business school at the University of Pennsylvania, is to name its proposed \$120m flagship building Huntsman Hall after the founder, chairman and

chief executive of the Huntsman Corporation, Jon M. Huntsman. He gained an undergraduate degree from Wharton in 1959 and today serves on Wharton's Board of Overseers. He and his family have given more than \$50m to Wharton over a number of years.

Wharton: www.wharton.upenn.edu

Once more unto the boardroom

Cranfield University school of management has linked with Shakespeare's Globe theatre in London to develop short programmes that combine theatre techniques with more traditional approaches to management development.

The initiative will be managed at the Cranfield end by the school's Praxis Centre, which specialises in using unorthodox methods to promote personal development.

In June the partnership will explore leadership through William Shakespeare's Julius Caesar and in July leadership and Henry V will be on the agenda. The programmes will be directed by Richard Olivier, the theatre director and visiting fellow

at the Praxis Centre.

This is not the first time that Shakespeare's Henry V has been employed to help managers develop their leadership skills.

For some years the Stern school at New York University has been using the Kenneth Branagh film of the play in its executive MBA programme. Cranfield: www.cranfield.ac.uk/dsom

Sloan appoints chairman for centre

The Sloan school at MIT has announced the new chairman of the MIT Entrepreneurship Centre.

He is Edward Roberts, professor of the management of technology and a pioneer in research into entrepreneurship, and his plans for the centre will focus on four areas: expanding the faculty; more courses; a broader research programme; and more involvement from other MIT departments.

Sloan: http://web.mit.edu/sloan/www/

Information for News from Campus should be sent to Della Bradshaw, The Financial Times, One Southwark Bridge, London SE1 9HL. Tel: 44 171 873 4673; Fax: 44 171 873 3850

BUSINESS EDUCATION HUMAN RESOURCES

On course for a holistic approach

PwC, the giant professional services firm, has introduced a post-graduate diploma course for consultancy staff in response to what it regards as an increasing overlap between human resource management and other disciplines, such as tax and pensions planning and overall business strategy.

The part-time course, designed to bridge the gap between specialisations, has been devised with the Manchester School of Management at UMIST. It is the school's first such course devoted to a single customer.

Graham Ward-Thompson, PwC training partner, says the firm wanted to create a wider understanding of human resource issues, but it could not find a course that suited its needs. "If a company wants to devise a rewards scheme for its staff, for example, there is an increasing need for us, as advisers, to understand and link with other areas such as share option schemes, tax planning or employment law. We wanted to be able to take a more holistic view."

To test their ideas, PwC and the management school brought together a group of staff with different specialist qualifications.

"They knocked lumps out of each other," says Mr Ward-Thompson. "The human resources person took a more holistic approach but the others wanted to do their individual bit." It was a "painful exercise in some ways", he says. But it underlined the need for specialists to take a wider view and to set human resources within the context of business strategy and other issues that impinged on staff planning.

This September, 30 PwC students start the new diploma, following a pilot course that started last year. The course comprises 39 study days over 18 months and is accredited as a postgraduate diploma by the UK's Institute of Personnel & Development.

"It represents quite an investment for us, perhaps as much as £1m in terms of course costs and study time," says Mr Ward-Thompson. "But our staff will gain a better understanding of human resource issues and we think it will give us a competitive edge." The course examines such issues as the retention and development of staff through training and reward schemes.

Sheila Jones

BAA

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THE ARTS

OPENINGS



LONDON

The music of Abbe is the premise of London's latest musical, *Mamma Mia!*, opening at the Prince Edward Theatre tomorrow night. Music and lyrics are by Benny Andersson and Björn Ulvæus; Phyllida Lloyd directs. London's latest *Hamlet* is Paul Rhys, who played both Edgar in *King Lear* and the young Holman in the premiere of Tom Stoppard's *The Invention of Love* at the National Theatre during 1997. The production, directed by Laurence Boswell, opens on Wednesday at the Young Vic.

NEW YORK

On Wednesday at Avery Fisher Hall, the Lincoln Center Jazz Orchestra with Wynton Marsalis will join Kurt Masur and the New York Philharmonic for a

centenary celebration of Duke Ellington. The programme includes Ellington's arrangements of Grieg's *Pearl Suite* and arrangements by Marsalis of several Ellington works. It is repeated on Friday afternoon and Saturday and next Tuesday evenings.

The Howard Davies production of Eugene O'Neill's play *The Iceman Cometh*, which originated at the Almeida Theatre in London, opens on Broadway on Thursday at the Alvin Theatre, with its star Kevin Spacey, (far right) and several newcomers, including Robert Sean Leonard and Tony Danza.

LOS ANGELES

The Ensemble Inter-Contemporain begins a tour of US universities on Thursday with a concert in the



Schoenberg Hall of the University of California. Repertoire includes Elliott Carter's *Glassnet Concerto* (Alain Daniélou) and Boulez's *Dirige 1*, and there will be masterclasses at each venue. The conductor is David Robertson.

EDINBURGH

The National Gallery of Scotland has organised an exhibition of master drawings from its own collection (left). Opening on Wednesday, the show includes work by Ingres, Rubens, Turner and Leonardo, as well as the British, Flemish and Dutch schools.

HAMBURG

Luigi Nono's *Al gran sole carico d'amore* receives a rare staging this month at the Staatsoper. It is



generally considered one of the most challenging and in some quarters, unstageable works of modern music theatre. Ingo Metzmacher conducts, Travis Preston directs. The first night is on Sunday.

When the UK National Lottery was launched, Lord Rothschild, who had been appointed chairman of the Heritage Lottery Fund, was ecstatic. With millions pouring in each year to shore up the heritage, no longer would the country face the steady erosion of its artistic treasures abroad. He envisaged the day when he could go to a Sotheby's auction in New York and, with the fund's chequebook, actually repatriate lost works of art to the UK.

Four years later it all looks very different. One of Rembrandt's greatest late paintings, a portrait of an old man, is being sold by Lord Camborne to a Dutch collector, and the directors of the nation's leading art museums can only wring their hands.

Alan Howarth, the UK arts minister, has given them three months to mount a campaign to raise the £9.3m value placed on the painting, but they know it would be useless. They can expect no help from the Heritage Fund, which has set aside just £5m a year to help in the acquisition of works of art. This is part of the Labour party's policy of spreading lottery money more widely and concentrating the cash for museums on widening access rather than on acquisitions.

The Conservative government showed little interest in how the lottery millions it had spawned were spent and so Lord Rothschild could set about saving his heritage, sometimes controversially; the fund's first grant, of more than £18m to save the Churchill papers, backfired badly.

At that point the battle lines were drawn between the art establishment, which wanted to hang on to every masterpiece (and many minor pieces) even if it meant paying substantial sums to rich families, and the sceptics who wondered whether the millions playing the lottery considered such spending a "good cause".

Since the arrival of Labour there has been a profound shift in the priorities of the fund, masterminded by Chris Smith, the UK culture secretary. Next month a new set of guidelines will be announced by Eric Anderson, the fund's chairman, which will further reflect the buzz words "access", "community" and "environment".

The fund is to become strategic: for example, the former coalmining areas, which lack grand houses and museums, will benefit through cash directed towards their places of wor-



Safe hands: Hugh Douglas Hamilton's painting of Canova working in his studio was in danger of leaving the country when the Lottery Fund refused to give £235,400 to safeguard it. The National Art Collections Fund raised its contribution and the work is now at the Victoria & Albert

Wetlands are in, Watteaus are out

With new guidelines due on how UK lottery money is to be spent, Antony Thornicroft assesses the effects

ship. Local heritage schemes, townscapes and areas of natural beauty will take precedence over works of art. Wetlands are in; Watteaus are out.

Anderson also has less financial room for manoeuvre. The creation of another good cause, the New Opportunities Fund, has reduced the money available for heritage from £200m to nearer £230m a year. But he is mainly reflecting the government's agenda: the benefits from the lottery should trickle down to as many of its players as possible.

The fund can argue that museums have done exceedingly well. Of about £1.22bn committed to date, they have received £528m, or 43 per cent of the total. The British Museum, the Museums on Merseyside, the Victoria & Albert, the National Maritime Museum, the National Portrait Gallery, have all

received millions of pounds to fund structural overhauls.

This munificence has had the effect of gagging museum directors. Having received such vast sums in the recent past they dare not squeal too loudly for extra money for acquisitions.

No such inhibitions affect the National Art Collections Fund, the charity which suddenly finds itself the first, rather than the last, port of call for museums seeking cash. That fund now claims 120,000 members, and the extra subscriptions mean that its money available to help museum acquisitions has risen to £3m a year, close to the Heritage Fund's allocation, and more than the £2.5m which the National Heritage Memorial Fund, the traditional guardian of the nation's heritage, now receives from the UK government.

What makes David Barry, director of the NACF, angry is that so much of the changed policy has been introduced by stealth. Take the Memorial Fund. Its guidelines to applicants clearly state that it would provide grants for items that

The creation of another good cause has reduced the money available

"are at risk of being sold abroad, developed, damaged or lost". In supplementary information it has dropped the export risk as a condition for aid. There is also the matter of quiet discussion. Just as the museum directors have been

silenced, so the voice of the export reviewing committee on works of art is muted. In its report for 1997-98 it pointed out that of the 36 items that it recommended should have their export licences deferred to give museums in the UK time to raise matching sums, only 12 were retained, or 46 per cent.

Ten years ago, before the lottery, half the items that had their licences deferred usually stayed in the UK. In 1995-97, the fund contributed less than £500,000 to help retain objects selected by experts as of national importance. The committee reported the facts but is reluctant publicly to criticise the fund. The expectation that, with the lottery, no masterpiece would ever be lost to the nation again now looks hopelessly naive.

In the real world, in the view of the average voter,

museums have not done too badly. The £38m which has gone into acquisitions in four years is less than the cost of one Van Gogh at auction, but is welcome new money. If there is a choice between giving £7m to help acquire Stubb's "Whistle-jacket" for the National Gallery, or use the same money to help 100 local heritage groups safeguard the parish church or the village hall, the majority will favour the many. The cost of saving "Whistle-jacket" blew the whistle on future large grants to preserve art, at least in the short term.

If the art world expected more from the lottery then it was out of touch with political reality.

There is hope. "We are fully aware of the problem and would like to spend more on acquisitions," says Anderson.

Tragedy and farce

PARIS THEATRE

NICHOLAS POWELL

L'Avenir
Chaillet

If ever a troupe deserved its name, it was Jérôme Savary's Grand Magic Circus. Between 1968 and 1987, this travelling company produced about 20 outrageously innovative and loosely scripted shows, from *Zartan*, *Torzan's Unloved Brother* to *Chanderella* or *Class Struggle*. Mixing acrobatics, clowning, music, real and fake animals, they packed out circus tents and theatres throughout Europe, attracting the scorn of all but the most far-sighted of critics.

After an indifferent spell in recent years, the old magic has returned in Savary's latest production, which has just opened at Chaillet - Molière's *L'Avare*, a tale of pathological tight-fistedness in which potential tragedy is transformed into farce by a mixture of commonsense, ruse and love.

The acting is first-rate: Jacques Sereys in particular as Harpagon, the title-role miser, is unfailingly funny in vocal and facial expression, while Froline, the procuress (Catherine Jacob), usually played as an old tramp, is young, physically alluring and very effective. The four young lovers, meanwhile, often played as insipid, really seem to love and lust after each other.

Within a semi-abstract period set designed by Savary, the very wide Chaillet stage is cluttered with such symptoms of manic greed as empty jerry cans, vacuum cleaners (for the loose change) supermarket trolleys and distressed armchairs. The extravagant stage business always complements the text.

True, the denouement of *L'Avare*, the *deus ex machina* arrival of Anselme, the long-lost father of Mariane and Valère, the lovers of Harpagon's son and daughter, is long and laboured. But with the inspector's portable typewriter catching fire, and Froline reappearing dressed as a Breton peasant woman, eating crayfish and oysters, no one notices. Just as Harpagon, reunited with his money, cannot see the play's last, beautiful image, two brides in white dancing in a circle behind him.

INTERNATIONAL

Arts Guide

AMSTERDAM

DANCE

Het Muziektheater
Tel: 31-20-551 8911
Dutch National Ballet programme combining the Dutch premiere of *Acts of Light* by Martha Graham, with the world premiere of Krzysztof Pastor's *Bitter Sweet*, and Balanchine's *Symphony in C*; Apr 6, 8, 9

EXHIBITION

Rijksmuseum
Tel: 31-20-673 2121
Sheldor: display of Asiatic objects highly popular in Europe and imported in large quantities by the Dutch East India Company; to Apr 5

OPERA

Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Oello: by Verdi. Conducted by Carlo Rizzi in a staging by Klaus Michael Grüber. Apr 10

BERLIN

CONCERT

Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
Staatskapelle Berlin: conducted by Daniel Barenboim in works by Beethoven and Wagner, with soloists including tenor Jon Vickers; Apr 5

OPERA

Deutsche Oper
Tel: 49-30-34384-01
Matthäus-Passion: Christopher Hogwood conducts Johann Bach's and Felix Mendelssohn's score; staged by Günther Uecker, Götz Friedrich and Dietlind Calsow; Apr 8, 10

BONN

EXHIBITION
Kunst- und Ausstellungshalle der Bundesrepublik Deutschland
Tel: 49-228-917 1200
www.kah-bonn.de

High Renaissance in the Vatican: Art and Culture at the Papal Court (1500-34). The early 16th century saw Papal Rome establish itself as the centre of art in Europe: the Vatican commissioned work from such great artists as Leonardo da Vinci, Michelangelo and Raphael. This exhibition displays some of the masterpieces that resulted, as well as detailing the contexts in which they were produced; to Apr 11

BUDAPEST

Hungarian National Gallery
Tel: 36-1-375 7533

Jozsef Rippl-Ronai: most of the 250 pieces depict this famous Hungarian post-impressionist's hometown, although it also includes forays into decorative arts. His first exhibition since 1961; to Sep 6
Museum of Applied Arts
Tel: 36-1-217 5222

Zsolnay: the ceramics of the Zsolnay factory in Southern Hungary are said to rank alongside Tiffany glass. Shows 200 objects from jewelry to architectural ornaments produced by the factory which was founded in 1853; to Sep 27

CHICAGO

CONCERT
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: presented as part of the Great Performers Series in works by Mozart and featuring Alfred Brendel on piano, Katharine Gowers and Lucy Leal on violin; Apr 6

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
Glenn Miller Orchestra: conducted by Ray McVay performing wartime classics; Apr 10

Orchestra of the Age of Enlightenment: this period instrument ensemble makes a welcome return starring Nathalie Stutzmann (contralto) and directed by Catherine Mackintosh

in works by Corelli and J.S. Bach; Apr 6
Queen Elizabeth Hall
Tel: 44-171-960 4242
Camerata Academica: in works by Mozart, with violin soloist Isabella Faust, and viola Tabes Zimmermann; Apr 7
Royal Festival Hall
Tel: 44-171-960 4242
Philharmonia Orchestra: conducted by Vladimir Ashkenazy in works by Bernstein, Gershwin, and Rimsky-Korsakov; Apr 7

EXHIBITION

Hayward Gallery
Tel: 44-171-261 0127
www.hayward-gallery.org.uk
Patrick Caulfield: major retrospective of the British pop artist; then touring in Europe and the US; to Apr 11

OPERA

English National Opera, London Coliseum
Tel: 44-171-632 8300
Mefistofele: by Boito. Conducted by Oliver von Dohnányi in a new staging by Ian Judge; Apr 9
Salome: David Atherton conducts Richard Strauss' opera, starring Vivian Tierney as Salome in David Leveaux's production; Apr 7, 10

LOS ANGELES

CONCERT
Music Center: Dorothy Chandler Pavilion
Tel: 1-213-365 3500
www.laphil.org
Los Angeles Philharmonic:

conducted by Hans Vonk and featuring Lars Vogt on piano in works by Weber, Mozart, and Schubert; Apr 7, 10, 11

MADRID

EXHIBITION
Fundación Juan March
Tel: 34-91-435 4240
Marc Chagall: Jewish Traditions. 40 paintings by the Russian-French painter, produced between 1909 and 1978. They detail Chagall's progression through such styles as Expressionism, Cubism and Surrealism; to Apr 11

NEW YORK

CONCERT
Pierpont Morgan Library
Tel: 1-212-685 0008
Collection in Concert: From Bach to Berg: featuring John Aler (tenor), Krista Benison Feeney (violin), Michael Kanner (cello) and directed by Laurie Smukler and Ira Weller; Apr 8

EXHIBITION

Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Our New Clothes: Acquisitions of the 1990s: presented by the Costume Institute. Focuses on themes such as American Heroes which highlights designers Geoffrey Beene, Calvin Klein, and Giorgio di Sant'Angelo; from Apr 6 to Aug 22

OPERA

Metropolitan Opera, Lincoln Center

Tel: 1-212-362 6000
www.metopera.org
Giulio Cesare: returns to the repertoire with John Nelson conducting and Jennifer Larmore in the title role. Production by John Copley, sets designed by John Pascoe, and costumes by Michael Stennett; Apr 10

Susannah by Floyd. James Conlon conducts a new staging by Robert Falls, with a cast led by Renée Fleming and Samuel Ramey; Apr 6, 9
The Queen of Spades: by Tchaikovsky. Conducted by Valery Gergiev in a revival of Elijah Moshinsky's staging, designed by Mark Thompson. The cast is led by Plácido Domingo (replaced by Yuri Merushin on Apr 8), Galina Gorchakova and Olga Borodina; Apr 7, 10

PARIS

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
Lucia di Lammermoor: by Donizetti. Conducted by Bruno Campanella in a staging by Andrei Serban and Robert Carsen, with designs by William Dudley; Apr 8, 11

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9599
New Japan Philharmonic: Hiroshi Wakasugi conducts in works by Alban Berg and Kurt Weill; with

Marl Midorikawa and Michio Tatara as soloists; Apr 5

DANCE

NHK Hall
The Royal Ballet: the British company's tour opens with Swan Lake; Apr 11

VIENNA

OPERA
Wiener Staatsoper
Tel: 43-1-51444
Macbeth: by Verdi. Conducted by Simone Young in a staging by Peter Wood; Apr 6, 9

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At 08.20 Tanya Beckett of FTV reports live from LUFFE as the London market opens.



MARTIN WOLF

Blair's model

The UK prime minister will have to struggle to preserve his island of liberal capitalism within the European Union

Tony Blair, the UK prime minister, professes to be an evangelist for the Anglo-Saxon style of economics. Since the party he heads opposed every significant reform introduced under Margaret Thatcher and John Major, this represents a conversion as remarkable as St Paul's on the road to Damascus. But even if Mr Blair believes what he says, he may fail to preserve his island of liberal capitalism within the European Union.

Many on his political side would argue he should not try: continental capitalism is, they insist, the more successful and civilised alternative. But that argument is not as persuasive as two decades ago: Anglo-Saxon economies are now performing at least as well as their rivals.

The chart reveals the picture on growth. Since their most recent cyclical troughs, the Anglo-Saxons have been growing more quickly than the three continental European members of the Group of Seven leading economies and Japan (which is excluded from the chart, because it has had no sustained recovery).

One explanation for the relatively good Anglo-Saxon performance in the 1990s could be that the growth started after deeper recessions. But this is not so. According to the Organisation for Economic Co-operation and Development, "output gaps" - the deviation of actual from potential output as a proportion of potential output - were 1.9 per cent in the US, 2.5 per cent in Canada, 2.7 per cent in the UK and 4 per cent in Australia, at their respective cyclical turning points. By

comparison, the gaps were 0.6 per cent in Germany, 2.6 per cent in Italy and 3.5 per cent in France. Only Germany, with its small gap, and Australia, with its large one, fit the hypothesis.

Good Anglo-Saxon growth performance is also no flash in the pan. Between 1982, the starting point of the previous economic cycle for the G7 as a whole, and the end of last year, US gross domestic product rose 86 per cent, while the GDPs of the UK and Canada both increased 54 per cent.

Meanwhile, West German GDP rose 43 per cent, French GDP 40 per cent and Italian GDP 36 per cent. True, Japan's GDP expanded 55 per cent, but three-quarters of this had occurred by 1990.

Unemployment rates in the four Anglo-Saxon countries are also lower than those in the continental European countries. Even Japan's misleadingly low figure of 4.6 per cent of the labour force is higher than that of the US. Moreover, in 1997, the proportion of the population aged 15 to 64

employed in the Anglo-Saxon countries ranged from 66 per cent in Australia to 71 per cent in the UK and 74 per cent in the US. For comparison, it was a mere 51 per cent in Italy, 59 per cent in France and 64 per cent in Germany.

Ah bliss! No longer am I obliged to explain poor British performance. But this is more than just a personal relief. The Anglo-Saxon combination of faster economic growth, lower unemployment and higher employment is intrinsically extremely attractive.

This does not mean Germany's version of the social market economy - to take the most appealing alternative - lacks enviable features. It has several: high average standards of living; a relatively equal distribution of income and earnings; and the excellent quality of public goods. Even so, there are three good reasons why the UK should not dream of imitating it.

First, Germany's growth and employment

performance has been deteriorating markedly over the decades.

Second, its economic model may already be doomed. This depended on sustaining long-term implicit bargains between players who thought themselves tied to one another over the long term. But the internationalisation of German business is, inevitably, cutting the ties that bind companies, workers and government together.

Finally, the UK lacks the values, institutions and habits necessary to make corporatist consensus work, even if it wanted to do so. Whether or not more consensual and more regulated sorts of economy can function satisfactorily elsewhere, these are most unlikely to succeed in the UK. Its only hope is a more individualistic approach - one with modest regulation and taxation, openness to trade and investment, intense internal competition and corporate control exercised in the interests of shareholders.

Fortunately, the evidence suggests that such Anglo-Saxon economies can at least match (or, in the case of the US, even surpass) the performance of the rest. If, as now seems likely, the UK experiences no more than a brief slowdown before growth resumes, this should further encourage Mr Blair in his struggle to protect and promote what he inherited.

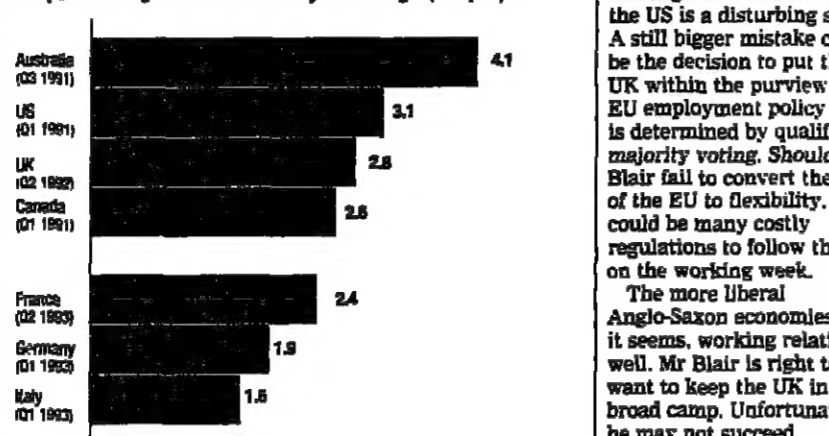
The question is whether he will. The introduction of a national minimum wage at a level significantly higher, in relation to average earnings, than that of the US is a disturbing signal. A still bigger mistake could be the decision to put the UK within the purview of an EU employment policy that is determined by qualified majority voting. Should Mr Blair fail to convert the rest of the EU to flexibility, there could be many costly regulations to follow those on the working week.

The more liberal Anglo-Saxon economies are, it seems, working relatively well. Mr Blair is right to want to keep the UK in this broad camp. Unfortunately, he may not succeed.

Martin Wolf/ft.com

Triumph of the Anglo-Saxons?

Compound GDP growth since latest cyclical trough (% a year)



Source: Datastream/FT

LETTERS TO THE EDITOR

True picture of the state of Chiapas

From Mr Santiago Oñate,

Sir, Your article "Mexico's Zapatista guerrillas embark on publicity offensive" (March 26) provides an incomplete picture of the situation that prevails in Chiapas.

Your article deals mainly with the unofficial "referendum" organised by the Zapatista National Liberation Army (EZLN) and its supporters. It does not reflect the consistent efforts carried out by President Ernesto Zedillo's administration to solve the political and social problems of the state of Chiapas and of its population.

As President Zedillo recalled in his weekly radio message of March 20, during the past four years health services in Chiapas have been enlarged and improved. During this period, more than 500,000 people have gained access to health services. Today the people of Chiapas are able to use more than 1,000 medical units and more than 2,000 local clinics.

A direct result of this is a significant reduction in illness. While in 1995 more than 1,500 cases of cholera were registered, in 1998 not a single person suffered from it. And child mortality has dropped by 40 per cent.

In a similar way, education services for the children of Chiapas have been expanded. In four years, more than 4,000 schools have been built and over 10,000 teachers have been incorporated into them. The government has acquired more than 500,000 acres of land and distributed it to nearly 60,000 families.

These are a few examples of a consistent effort directed towards the solution of the social and economic problems that for centuries have afflicted the people of Chiapas. None of these was taken into account in your article.

Moreover, contrary to what your article implies, President Zedillo and his party, the Institutional Revolutionary Party (PRI), have

presented to Congress a proposal to recognise fully and expand the legal rights of the indigenous population and to secure a new constitutional arrangement between the federal government and indigenous communities.

The proposal is the result of an open process of public hearings and consultations and, yes, notwithstanding some misconceptions, it incorporates the so-called San Andres agreements.

The solid basis for a long-lasting peace and development has been patiently built by the government and those sectors of civil society engaged in the solution of the problems that lie at the bottom of the Chiapas conflict, more than in ephemeral electoral publicity.

Santiago Oñate, Ambassador, Mexican Embassy, 42 Hertford Street, Mayfair, London W1J 7TF, UK

Betting on the pound

From Mr John Pitts,

Sir, Alan Beattie, in his article about the relationship between the pound, the dollar and the euro, refers to the belief that the current unusual stability in the sterling/dollar exchange rate is related to the synchronisation in the patterns of economic growth in the two countries ("Pound and dollar may soon reach a parting of the ways", March 30). He wisely refers also to sceptics who do not think that the relationship is very significant. The graph of economic cycles illustrating his article appears to provide strong evidence that it does not exist.

The graph covers nearly three decades. It shows that from 1971 to 1983 the synchronisation of the growth cycles was very close. Thereafter, the synchronisation has been significantly less close, and for the last few years the pattern has been quite odd. Those of us with long memories know that for much of the 1980s the exchange rate fluctuated remarkably. In the winter of 1980-81 it reached about \$2.4 to the pound. In the middle of the decade it had fallen to half that level. The long period of close synchronisation of the pattern of economic growth had therefore been followed by a period of volatility for the exchange rate. It appears now that a period of weaker synchronisation is being followed by a period of greater stability for the rate - quite the reverse of what the "analysts" are reported as believing.

Perhaps the truth is that the pound is predominantly a punters' currency and punters follow fashion for a time until they get bored with it.

John Pitts, Hall Garth House, Carthorpe, Bedale, North Yorkshire, UK

Blame institutions for over-valued stocks

From Alpesh B. Patel,

Sir, Is online trading a leviathan for the markets, requiring vanquishing by crusading financial knights of the US Securities and Exchange Committee and the Federal Reserve?

The recent comments of Arthur Levitt, chairman of the SEC, suggest so. His remarks follow concerns expressed by Alan Greenspan, the Fed chairman, that the US market is over-valued, with many stock valuations unjustified by earnings or profits. Stocks they have in mind would probably include Yahoo! Micro-soft, Amazon.com and AOL.

The source of the over-valuation is generally blamed on the parallel rise in internet trading and especially day-trading. There is a per-

ception that day-traders are wildly and ignorantly betting on stocks like gamblers in a casino, and need regulatory protection from themselves. They are seen as adding to market gyrations and volatility as they chase stock prices.

However, Mr Levitt and his ilk are misguided. The online trader is not to blame for market ills perceived by the regulators. In the UK, according to Charles Schwab, the average online trade is for \$1,000. While this figure would be larger in the US, small private investors trading online cannot significantly move share prices with small quantities of money in relatively liquid stocks.

It is the institutions, which with their vast

reserves of cash cause markets to move. It is their faith in the internet stocks that has elevated them to their current levels, because it is they who continue to buy or to hold and not sell at current price levels. If one examines the ownership of most of the "over-valued" internet stocks, it is the institutions that have the most money in them.

If they do not sell the stocks at the prevailing market price, they must believe the stock is going to relatively outperform other investments. Consequently, blaming the small guy is phony.

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Aerial attack: US soldiers load an F16 with bombs at the Aviano base in northern Italy in preparation for another raid

Reuters

PERSONAL VIEW CARL BILDT

Time to send in troops

Air power will never be sufficient and Nato must urgently launch a campaign on the ground in Kosovo in order to limit the carnage and allow refugees to return

Once again we see disaster in the Balkans. For a few years after the Bosnian peace agreement, it seemed possible that the forces of peace would prevail. Now the entire region seems to be heading for turmoil and conflict. A war that no one can win is being fought in Kosovo. Nato can never triumph over Serbia by relying solely on air power. The Yugoslav army can never beat the Kosovo Liberation Army guerrillas, so long as the KLA continues to move stealthily among the people of the province. And the KLA will in the foreseeable future be no match for the firepower of the Yugoslav army. The KLA guerrillas will be overrun once they engage Yugoslav forces in the open.

For Nato, the situation is grave. No experienced independent military observer believes that Nato can win a war over Kosovo without deploying ground forces. History gives no examples of victories won solely from the air. It is only by controlling the ground as well as the air that a military power can defeat an enemy and decide the political fate of the territory in question.

In many quarters, there was a belief that Slobodan Milosevic, the Yugoslav president, would cave in and capitulate after a few blows. Questions of what might happen if he did not

were never really addressed. But the evidence was there to be seen. Nato itself reported the build-up of Yugoslav forces in and around Kosovo.

It was obvious to any experienced observer of the scene that if Nato was to attack in the air, Milosevic was going to attack on the ground. The usual logic of escalation applies to the Balkans without exception. The belief that Milosevic would capitulate easily was a massive miscalculation, with horrible human consequences.

By restricting itself to air operations, Nato is minimising the risks to its airmen and soldiers, but increasing the risks to the Kosovo Albanians it was supposed to protect. There is serenity around the air bases in Italy. But Kosovo is turning into a killing field.

Kosovo Albanian political leaders, who were wine and dined around European capitals only last year, are now running for their lives. We do not know if some of them are still alive. It is more than just a tragedy.

References to the International Tribunal on war crimes in former Yugoslavia to stop the carnage have scant credibility on the ground. No one has yet been indicted for what Franjo Tudjman, the president of Croatia, did in Krajina, nor for what Milosevic is now doing in Kosovo. And more than three years after being indicted by the Tribunal,

Radovan Karadzic, the Bosnian Serb leader, is still at large in Nato-controlled Bosnia.

Now, air operations are said to be focusing increasingly on targets in Kosovo. But the effects on the goals of the operation remain uncertain.

If Nato succeeds in bombing the Yugoslav army into just ravaging bands of revenge-seeking soldiers, there is every reason to fear

The belief that Milosevic would capitulate easily was a massive miscalculation

that the carnage on the killing fields of Kosovo will increase. The thirst for revenge will drive Serbs and Albanians alike to even more horrible acts.

We are probably heading towards the worst humanitarian disaster in Europe since the Bosnian war. A million refugees during the month to come is a real possibility. The situation is horrible beyond description. The effects of this enormous wave of refugees will be profoundly destabilising throughout the region.

There is no good outcome to this conflict. But to avoid the worst, it is now a moral

imperative for Nato to launch a ground campaign into Kosovo. There is simply no other way to limit the carnage on the ground and make it possible for the refugees to return home.

This is rapidly emerging as the key aim of the Nato campaign. It cannot be achieved by air power alone.

A ground campaign will be demanding and difficult. But I am convinced the Yugoslav army will run rather than fight. An air campaign can never defeat an army, but it can thoroughly demoralise a ground force.

Whatever happens next on the military front, a long-term confrontation with Serb nationalism throughout the region will have to be faced. That Rubicon was crossed when Nato started to bomb Belgrade.

Long-term attempts at stability in the region are now a shambles. For now, the short-term catastrophe must take priority. But later, there will be the need to rebuild a strategy for the entire region.

The Rambouillet process will be difficult to resurrect. The Dayton process is seriously endangered. Macedonia is gravely threatened. There is a storm warning from the southern border of Slovenia to the northern border of Greece.

The author is a former Swedish prime minister and international peace envoy to Bosnia.

FINANCIAL TIMES
Conferences

Nigeria

Debt, Development and Democracy: Prospects and Challenges
4 & 5 May 1999, Number One Southwark Bridge, London

The recent election of General Obasanjo as president of Nigeria marks the pendulum swing in Nigeria's phased return to civil rule. The Financial Times will mark this event with a major two-day conference which will bring together a number of newly elected senior ministers, international financiers and strategic players in Nigerian investment.

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Monday April 5 1999

No way to pick a leader

The search for a successor to Renato Ruggiero as director-general of the World Trade Organisation is turning into a shambles. Months of discussion appear to have reached deadlock, while relations between WTO members have become embittered by recriminations, factionalism, accusations of dirty tricks and mistrust. Their unedifying conduct threatens to damage the organisation and diminish the very post they seek to fill.

The WTO is emerging as the principal law-maker and policeman for a global economy. Its effectiveness depends crucially on the director-general acting as guardian of the multilateral system, pathfinder and deal-maker. Whoever performs that role must command full confidence that he represents fairly all members' interests.

The job's few formal powers make vision, political adeptness, persuasiveness and personal authority of paramount importance. These are the criteria by which WTO members gauge the performance of directors-general, and on which the choice should be based. Yet there is scant evidence that the two candidates left in the race, Supachai Panichpakdi of Thailand and Miles Moore of New Zealand, are being assessed on their individual merits.

Many governments' attitudes seem influenced more by regional affiliations and the myopic perceptions of national self-interest that the WTO exists to hold in check.

Transparency

Part of the problem lies with the consensus principle by which the WTO operates. This ensures all members are fully committed to agreements, once reached. But it does not make for transparency or quick decisions. Furthermore, the institutional cohesion which consensus is supposed to cement is being strained by unnamed countries' threats to veto candidates they disapprove of.

Such tactics risk handing the job to the candidate who causes the least offence, rather than to the one with the strongest

support. That is how the hapless Jacques Santer became president of the European Commission. It is a sorry precedent that the WTO should avoid at all costs.

But the US and the European Union must also bear responsibility for the current mess. The last time the WTO appointed a director-general, they paralysed proceedings for months by digging in stubbornly behind different candidates. This time, the situation is reversed. Both have shrunk from expressing firm preferences.

Deep divisions

Ideally, the US and EU should now seek to break the logjam by uniting behind one of the two candidates. But deep divisions between EU governments make that improbable. The only way out of deadlock then might be to draft in a tie-breaking candidate or establish an emergency committee with a mandate to make the choice.

These would be radical measures. But they may be needed to avoid a serious political vacuum at the top of the WTO after Mr Ruggiero steps down in a month's time. That would leave the organisation adrift, in the face of a mounting array of important challenges. They include preparing for a new trade round, resisting the growth of protectionist pressures, above all in the US, and preventing its increasingly frequent trade disputes with the EU undermining the multilateral system.

Tackling this agenda requires strong and effective leadership. The overriding priority for WTO members must be to set aside their petty differences and agree as quickly as possible on the individual who can best provide such leadership. They need to recognise that prolonged further delays - or settling on a weak compromise candidate - would entail huge risks.

Not only would it be much harder for the multilateral trade system to move forward, it could start sliding backwards. The credibility of the WTO, and of its members, is now on the line.

Next steps for Brazil

Brazil has in the space of a few months dug itself out of an economic hole. The government is regaining credibility in international capital markets after the currency collapse at the turn of the year. It has resolved the immediate fiscal crisis, capital has started to flow back into the country, the bottom of the recession is in sight, and the stock market is rising fast.

To hold on to that hard-won credibility, the Brazilian authorities need to build the foundations of a durable revival. What are their chances of success?

They have made a start, but the hardest part is yet to come. President Fernando Henrique Cardoso has confounded sceptics by delivering the emergency tax rises and spending cuts promised to the International Monetary Fund in return for last November's \$41.5bn loan. His government is well on track to deliver, on target, a 3.1 per cent primary budget surplus - before interest payments - this year.

Partly because of this, inflation has risen less than was expected - to 0.8 per cent a month - following the devaluation of the real in January and it is set to peak lower and earlier than expected, some time in the second quarter. This has allowed the central bank to cut interest rates by three percentage points to 42 per cent, giving relief to an economy that is expected to shrink by 4 per cent this year before picking up next.

Now that those emergency fiscal reforms are behind him, Mr Cardoso is turning his attention to a longer term fix. He has warned that now is not the time for the government to relax, a message he will repeat on his tour of Europe this month.

Entrenched interests

He is right to do so. The emergency measures relied mainly on tax rises. Now he will have to turn to the harder business of making cuts in spending. That will mean facing down powerful entrenched interests in Brazil's sprawling central and local government bureaucracies.

To that end, Mr Cardoso has put his personal weight behind

plans to push through a bill this year to fine public officials guilty of overspending. That should bolster confidence in Brazilian fiscal rectitude.

But it is not enough. The fiscal responsibility bill will only curb, not cut, public expenditure. And Mr Cardoso sees no chance of agreement on deeper tax reforms until at least next year, though he does plan to start discussions on this issue. Those reforms need to eliminate costly overlaps in federal and state responsibilities for health and education, enlarge a tax base which falls disproportionately on lower income taxpayers, and close multiple tax loopholes.

Unpopular overhaul

The government should resist any temptation to delay what will be a complex and unpopular overhaul of the tax system. It should also take this opportunity to make substantial cuts in spending on Brazil's bloated civil service. It has made a start by increasing civil servants' pension contributions, but this is only the margin of a bigger problem.

Mr Cardoso's cautious approach is understandable. It derives from the need to weave political compromises at home, within his diverse coalition and powerful regional governors. His skill at this is a political strength. But markets are less patient, and for good reason. General government debt still stands at 50 per cent of gross domestic product. This is the main cause of Brazil's high interest rates, which only add to the deficit in the form of high debt service charges. Pressure on the government will increase to put that debt on a consistently declining trend so that interest rates can continue to fall.

With the crisis under control, a long-term solution to Brazil's fiscal problems is essential. If Mr Cardoso's team fails to deliver this next stage of reform, the economy could slip back into the hole from which it is emerging. In that event, the shock to the world's financial markets could be greater than that inflicted by Brazil's previous crisis.

COMMENT & ANALYSIS

Still poles apart

James Kynge and Tony Walker examine the frosty relations between Washington and Beijing on the eve of the Chinese premier's US visit



Zhu Rongji, China's premier, is no stranger to tough assignments. Disgraced twice during his early career, he spent years doing hard labour on a farm. As premier, he has set himself the Augean task of overhauling China's crumbling state industries and near insolvent banking system within just three years.

But even for a man of his undoubted skill and determination, the challenge for Mr Zhu as he prepares to travel to the US tomorrow is formidable. The first Chinese premier to visit Washington in 15 years arrives when relations between two of the world's most powerful countries are in crisis.

Feelings in Washington are agitated by a range of disagreements, including allegations of Chinese spying at US nuclear laboratories, Beijing's hefty prison sentences for dissidents, diplomatic discord over Kosovo, China's vehement opposition to a proposed US-led missile shield in Asia and, of course, a Chinese trade surplus with the US that ballooned to \$57bn last year.

This is more than just another bad patch in a periodically prickly co-existence. Officials on both sides fear these disputes might prelude a deeper change for the worse. At issue is whether the US and China may one day turn from being strategic competitors into enemies.

Conscious of the importance of his trip to Washington, Mr Zhu says his mission is to "cool down" American tempers.

"He is walking into a snake-pit," says David Shambaugh, a leading US China watcher who visited Beijing last week. In Washington, a senior administration official describes the visit in equally stark terms: "We are on the cusp in terms of our long-term relations with China. This is a watershed moment and the success, or otherwise, of Zhu's visit will help determine the course of the relationship for years to come."

Friction between the world's only superpower and Asia's emerging giant is nothing new. But what is different this time is that pressing national security concerns have called into question the very policy of engagement that has dominated relations for the past 20 years.

"The US doesn't know who its enemy is after the collapse of the Soviet Union and China quite frankly offers a lot of criteria for such," says Mr Shambaugh, director of the Sigur Center for Asian Studies at George Washington University.

Recent developments have done much to heighten alarm. A House panel headed by Republican Christopher Cox has concluded that US national security has been endangered by China's legitimate and illegitimate attempts to gain access to US technology with military applications, particularly missile technologies derived from the launches of US satellites.

Even more serious are allegations that a Taiwan-born Chinese, Lee Wen Ho, helped China miniaturise its nuclear warheads by passing to Beijing secrets he stole while working at the US nuclear weapons laboratory in Los Alamos, New Mexico.

In addition, US administration officials say Washington is perturbed by China's accelerated deployment of missiles to an area across the strait from Taiwan, an island that Beijing regards as a renegade province and threatens to attack if it formally declares independence.

From China's perspective, however, it is the US that has grown

belligerent. A senior official in Beijing says Washington's recent proposal to deploy a theatre missile defence (TMD) shield (which is not yet developed) in Asia would have "extremely serious consequences", especially if its umbrella were extended to protect Taiwan. "Let us say that if the US was to give TMD to Taiwan, we would not have any more bilateral relations. It is as simple as that," says the official. "If it gives TMD to Japan, it would shift the geopolitical balance in the region and would start a new arms race."

The passions felt by both sides over security issues are intense. They may be raised yet higher during Mr Zhu's trip by the two sides' utterly opposed positions on Nato's bombing of Yugoslavia. If Nato intensifies its air strikes during Mr Zhu's visit, it will be difficult for the Chinese premier not to denounce them in front of his US hosts - risking a public row.

Mr Zhu, compared with his somewhat stilled colleague Jiang Zemin, the president, is an accomplished communicator. But he is travelling to the land of the soundbite and his endeavours to win over US public opinion may be handicapped by the fact that he and his Chinese positions are poles apart on issues including China's repressive rule in Tibet and poor human rights record.

Mr Zhu's assertion recently that none among the Chinese dissidents living in the US would be any good at governing China might appeal to a domestic audience. But, if repeated, it could further inflame attitudes in an already hostile US Congress.

While tempers brew, Washington and Beijing are expected to resort to a familiar formula that has guided them through squalls in the past; emphasising the commercial common sense in continued good relations.

China last month unveiled sig-

nificant deals for US companies, including the approval for the sale of US-developed CDMA mobile phone technology in China that may benefit Motorola and Lucent Technologies, a gas pipeline deal worth \$400m for Enron, a power plant contract valued at \$454m and the purchase of 10 Boeing 737s worth a total of \$400m. Mr Zhu may also announce more market access concessions such as licences for US banks and insurance companies during his trip.

But beyond individual deals, there is one possibility that could in the end make Mr Zhu's visit successful - the chance of an agreement on China's accession into the World Trade Organisa-

The US doesn't know who its enemy is after the Soviet Union's collapse and China offers a lot of criteria

tion (WTO) after 13 years of trying. While a full-scale agreement is unlikely during the visit, there remains some hope that a form of framework accord may be announced, or at least a statement committing both sides to search for a deal before the new round of WTO talks starts at the end of the year.

Considerable progress has been made in the past month in narrowing differences on a number of market access barriers for US companies in China in financial services and telecoms. But officials acknowledge that problems remain in agriculture, distribution and other sectors, which are holding up a deal.

But importantly, what does seem to have changed in past months is that China has become

genuinely interested in WTO accession and is willing to make concessions to secure it. "We need to be in the WTO, as long as the terms of entry are reasonable. This decision has been taken by the top leaders of government, not just Zhu Rongji," says one Chinese trade official.

Chinese officials say Beijing's new-found eagerness for accession to the WTO has arisen partly from a sharp recent decline in foreign investment and other deepening economic woes. Officials say an agreement could help to attract a new wave of foreign investors that would derive comfort from the WTO conditions of reducing tariff and market access barriers in a structured, transparent manner over a fixed period of time.

Failure to reach demonstrable progress on the WTO may remove the only real chance the summit has of being regarded as a success. But the White House may still be able, given a possible public performance by Mr Zhu, together with a scheduled agreement on environmental protection and new deals for US business, to claim that its policy of engagement is continuing to bear fruit.

In any case, the current prickliness of the US-China relationship is balanced by the lack of any viable alternative to engagement. "We don't have the luxury of not dealing with China. Like it or not we are going to have to," says Stanley Roth, assistant secretary of state for East Asian affairs, in a testimony before Congress.

According to Mr Roth the goal of engagement is "straightforward": it is trying to facilitate China's "integration into the global economic system as a normal country and one that sees itself as a responsible international player".

North Korea is the most urgent problem on which the international community would wel-

come a helping hand from China. Kenneth Lieberthal, senior director for Asian affairs at the national security council, makes the point that China's co-operation is crucial to efforts to prevent its neighbour from developing nuclear weapons. North Korea, Mr Lieberthal says, represents "the single biggest threat to stability in north-east Asia".

The costs of alienating Beijing could be heavy. So far, it appears to have abided by international agreements against nuclear proliferation, nuclear tests and has shown a willingness not to sell missile technology abroad.

On the economic front, the US has valued China's co-operation, particularly its pledge not to devalue the renminbi, its currency, since the Asian financial crisis hit last year. Mutual hostility may serve to test such promises.

Overshadowing these economic considerations, there is a strategic worry: a possibility that ruptured US-China ties may drive Beijing into other undesirable alliances. "The demonisation of China [by the US] is pushing China and Russia closer together," says Jia Qingguo, professor at the school of international studies at Beijing university. "We have less and less political space. There is an undercurrent pushing China and the US to become more like enemies."

A senior Chinese official says the basic level of trust that has existed for 20 years between the US and China has kept the lid on Beijing's military spending, allowing resources to be channelled toward an economic development that has benefited everyone, including US investors.

If that trust evaporates, Beijing may be forced to re-arm more quickly. Mr Zhu and his Washington hosts will this week be playing for high stakes. Fortunately, they know it.

OBSERVER

Giuliani's got zero tolerance

Rudolph Giuliani, New York's mayor, is still under siege after the police shooting of an unarmed young immigrant from Guinea. The mayor could be forgiven for steering clear of all things gun-related.

So the mayor's plans to visit the Shooting Gallery in Greenwich Village today to open the Gun For Hire centre might look like a case of bad timing. But Observer's relieved to learn the gallery is an independent film studio. Giuliani and Henry Kravis, the leveraged buy-out legend and chairman of the New York City investment fund, will be unveiling nothing more sinister than a production and post-production facility that hopes to drag some of the action away from the west coast.

Let's hope the publicity doesn't misfire.

Hurrying Huntsman

ICI could be forgiven for getting a bee in its Easter bonnet. The chemicals colossus is desperate to shed some of its debt and offload its remaining bulk chemicals operations.

But just as it came within a whisker of striking a \$2.8bn deal, Huntsman, its most fervent suitor, scuttled off home to Salt Lake City. So why did the Huntsman crowd

go home? One reason was Easter. Jon Huntsman and his family - he and his wife Karen have nine children and 39 grandchildren - are practising Mormons.

They've made their religious principles abundantly apparent in the past with large donations to causes ranging from cancer research to relief for victims of the 1988 earthquake in Armenia. But the Easter break also allowed the large, family-run business to withdraw tactically, leaving ICI to stew for a few days.

Huntsman's renowned for striking a hard bargain and picking up assets on the cheap. Unluckily for ICI, almost as soon as it put its bulk chemicals division on the block in 1997 most of it began to lose value as the Asian crisis sent commodity chemical prices spiralling downwards.

That's not much comfort for Sir Ronnie Hampel, the ICI chairman who's masterminded the group's daring transformation into a speciality chemicals concern. He'd like to be able to step down at the April 22 annual meeting on a high note, after 43 years at the group. For his sake, the Mormons had better get a move on.

Way out

Cecil Rhodes may be just days away from the removal van. More than a hundred years

ago, the grand old man of British colonialism set up the Rand Club in Johannesburg as a den for drinking, plotting and cutting deals.

But this month the club will vote on whether to join the middle-class right from the city centre. If it goes, so will the statue of Rhodes that welcomes the well-to-do in what the club says is the longest bar in Africa.

The club's always been a plush place - and in the old days that meant excluding non-whites and Jews while making sure that female guests (they could never be members) used the lift rather than the sweeping central staircase. Now the club embraces the movers and shakers of the new South Africa.

The club's management wants to shift the statues, the hunting trophies and all the other "office park environment" accessories. What Rhodes would have thought of that is anybody's guess.

Mr Clean

It's an odd sort of journey to move from running an ancient estate to supervising street-cleaning machines, but a grand old man of German manufacturing is glad someone has made it.

For 15 years, Tilly Necker, a former president of Germany's

family industrial cleaning firm. The job in question is chairman of Hako, a company with sales of some DM500m. And Necker has finally found his man.

For several years Sonfried Weber has been sorting out the estate of the Margrave of Baden-Baden, one of Germany's most splendid aristocrats.

Now Weber is headed for Hako, leaving behind worries about paintings, property and wine production. Let's hope he keeps his nose clean.

Monastic mixers

Fundraisers everywhere take note. A group of Franciscan friars from San Francisco has sent out an appeal for \$11m for the "seismic retrofitting" of their church, Saint Boniface.

Judging that a congregation in the "economically challenged" Tenderloin district will be unable to stump up the full amount, they have turned to monthly events called Margaritas at the Monastery to draw in outside donors.

Campaign director Toni Doyle says one atheist parted with a very substantial gift after a glass or two, but assures Observer: "This is a place of spiritual as well as physical nourishment." The evenings of monk-mixed cocktails appear to be working. So far they have raised \$6m for the San Franciscan Franciscans. Try saying that after a couple of drinks.

Financial Times

100 years ago

Emigration from Ireland showed no signs of abatement last year.

According to the statistics to be presented to Parliament, 33,885 persons, or 7.5 per cent of the population, in the middle of the year left the country, being an increase of 569 compared with 1897.

It would appear, however, that the natives of Ireland are showing less desire to leave their homes, as the number of emigrants born in the country shows a decrease of 284 compared with the number in 1897.

The States continue to be the favourite destination, with 27,835 people leaving for that country last year.

50 years ago

Investment in Germany It is confirmed that the British and American military governments have reached agreement on the proposal to lift the ban on foreign investments in Germany.

The proposals have already been submitted to the British Government, and they were studied at the Foreign Office yesterday.

They will also have to be ratified by the Government of the United States.

Handwritten signature: J. P. Vico

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MONDAY APRIL 5 1999

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INSIDE

Investors look for some cheer

Investors in European shares are hoping the next three months will bring more cheer than the quarter just ended. Despite starting the year in a blaze of glory with the launch of the euro and a burst of mergers and acquisitions activity, investors are looking for a little jaded even without the potential of the war in Yugoslavia to cause further damage. Page 19

Traders eye interest rate policy

Traders will focus on the meetings at the European Central Bank and Bank of England this week, with options focused on the prospects for interest rates. Growth in the broad measure of euro-zone money supply has moved further above the 4.5 per cent reference rate specified by the ECB but declines in business confidence may lead to expect a rate cut. Page 18

Frankfurt may return above 5,000

A better-than-expected performance immediately before the Easter holiday has raised hopes that Frankfurt's Xetra Dax blue-chip index will rise above 5,000 points for the first time in two weeks. But trading is likely to remain thin while uncertainty continues over the scale and duration of the Kosovo war. Page 18

Hungary blazes trail to euro-zone

The market for European depositary receipts (EDRs) has sprung into action. Borsodchem, Hungary's leading chemicals company, launched an EDR last week that allows investors to trade its shares in euros. At least three other Hungarian companies are set to establish similar facilities and, elsewhere in eastern Europe, Gazprom and Lukoil, the Russian energy groups, Poland's Kredyt Bank and Estonian Telecom could all follow suit. Page 18

Venezuela spirits rise on oil

An air of optimism has crept into Venezuelan financial circles over the past two weeks. The country's daunting economic challenges now seem just a touch easier to tackle than they did two months ago. What has changed? Following production cuts agreed in The Hague last month by leading oil producers, and approved at the Opec meeting in Vienna, Venezuela's basket of oil products jumped from an average \$9.25 in February to above \$13. Page 14

Happy new fiscal year for Nikkei

Tokyo's equity market made a strong start to the fiscal year, despite a succession of weak economic data, including record high unemployment in February and poor retail sales and industrial production figures. The Nikkei 225 closed at 16,290.16 on Friday, up 304.15 points on the week. Page 16

KPMG Canada wins more time

An Ontario court has ordered a delay in Arthur Andersen's plans to poach the Canadian practice of KPMG by allowing partners longer to consider alternative proposals. Page 15

FT GUIDE TO THE WEEK

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You only film twice
On Tuesday, a Los Angeles court will hear the dispute between Sony and MGM over the former's plan to remake *Thunderball*. In March, a federal judge refused to grant MGM, which claims the rights to Bond titles, a judgment blocking the remake.

Nordic parliament convenes
Politicians from Finland, Norway, Sweden and Russia will gather on Wednesday for the Nordic Council's first Barents parliamentary conference. Djibouti expects election
A presidential election is expected in Djibouti on Friday. President Hassan Gouled announced in February that he would stand down after leaving the tiny Horn of Africa state for 22 years.

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FRENCH AEROSPACE GROUP LOCKED INTO \$12BN HEDGE COMMITMENTS AT POOR RATE

Aerospatiale takes a hit

By David Owen in Paris

Aerospatiale, the French aerospace group, has been left with more than \$12bn of currency hedging commitments, depriving it of the chance to cash in on the strength of the US dollar.

The state-owned company's dollar/French franc exchange rate is understood to have been locked in at FF5.50-FF5.60 until 2002, protecting it against any renewed weakness of the US currency, but preventing it from exploiting the current exchange rate of more than FF6 to the dollar.

The hedging scheme emerged after Lagardere, the company whose Matra defence interests are being merged with Aerospatiale to form a French national aeronautics champion, said the new group would take a \$300m hit in its 1999 accounts in connection

with a policy of reducing exchange risks. This is believed to relate to the cost of buying options to lock in the FF5.50-FF5.60 exchange rate in 2001 and 2002.

As the French partner in the Airbus civil aircraft consortium, Aerospatiale is particularly sensitive to the dollar's fluctuations. Its recently published 1998 accounts showed a significant fall from FF1.06bn to FF409m (\$62m, \$68m) in operating income. If the dollar rate had been constant, operating income would have increased to FF1.15bn.

All told, Aerospatiale expects its dollar-denominated receipts to exceed dollar expenditures by a cumulative \$12bn over the next four years.

Under a strategy devised while the dollar was relatively weak, Aerospatiale sought to lock in a margin by cutting costs to a level where it would break even at a dollar exchange rate of FF5, while purchasing financial instruments guaranteeing it a rate of at least FF5.50 for its dollar receipts.

This ensured its unusually low level of equity for a company of its size would not be further eroded by exchange-related losses, as would have been the case in the early 1990s if it had sold its dollars at the prevailing market rate. Between 1990 and 1996, the company received more than FF5.5bn more for its dollars than if it had simply sold them on the market.

It financed this hedging programme by selling options in a "zero-premium" strategy. As a result of that, it now has commitments to sell \$12bn-\$13bn at between FF5.50 and FF5.60 - well below the current market level.

But as these commitments

do not exceed the quantity of dollars in its firm order book, Aerospatiale should not have to buy dollars on the market only to sell them at a loss. Therefore, it saw no need to mark outstanding financial instruments to market at the end of each year.

Aerospatiale disclosed last month that a reorganisation of hedging arrangements designed to "increase room to manoeuvre in future" had cost it FF66m in 1998. These costs reduced the effective exchange rate for the purposes of 1998 turnover from FF5.51 to just FF5.22.

Lagardere is taking a 33 per cent holding in the combined group, Aerospatiale Matra, and has undertaken to pay the state FF650m as well as a possible further FF1.15bn, depending on the future performance of the new group's shares.

Gucci awaits \$8bn-plus bid plan

By Alice Farnsworth in London

Italian fashion company likely to receive LVMH offer on Wednesday

The next stage in the battle for control of Gucci, the Italian fashion company, will start on Wednesday when its senior executives will be presented with an \$8bn-plus bid by their counterparts at LVMH, the French luxury goods group.

At the meeting, Pierre Godé, senior adviser to Bernard Arnault, LVMH's chairman, is expected to unveil the details of the French group's offer to a Gucci delegation, which is likely to be led by Robert Singer, finance director.

Gucci's board will meet, probably on Thursday or Friday, to discuss the terms of LVMH's bid. At the meeting, it will decide whether to recommend acceptance to shareholders.

After announcing in early January that LVMH had had secretly amassed more than

5 per cent of Gucci's equity, Mr Arnault bought more shares in the market to raise that holding to 34.4 per cent at a total cost of \$1.4bn.

His plans were stymied first when Gucci, advised by Morgan Stanley, neutralised his voting rights by issuing an identical stake to a specially created employee share option plan (ESOP), and second, by the surprise intervention of PPR.

Rather than risk having his \$1.4bn stake diluted to 20 per cent by a plan that would make it even harder for him to exert any influence over Gucci's management, Mr Arnault agreed to mount a

100 per cent bid. He also added Credit Suisse First Boston to his team of advisers, which had started with Goldman Sachs alone, but had already gained ABN Amro.

LVMH is understood to have indicated that it would offer \$81 cash for all Gucci's shares including PPR's, even though it is contesting the legality of that issue in the Dutch courts. Such an offer would value Gucci, including its \$20m net cash, at \$8bn.

However, the offer is conditional on LVMH securing 40 per cent acceptance, which seems unlikely given that PPR now owns just under 42 per cent of Gucci. A number of Gucci's larger institutional investors have also indicated that they consider \$81 to be too low.



Property group studies theatre disposals

London's Donmar Warehouse, setting for Nicole Kidman's performance in *The Blue Room*, is part of the entertainment division to be valued as Chesterfield Properties considers possible disposal routes.

The property group has appointed Investec, which has a specialist media team, to study options which might include a demerger.

Roger Wingate, the largest shareholder and former chairman of the group, is understood to have dropped plans to take over the division. Report, Page 14

Picture: Alastair Muir

China Unicom to invest \$3bn in mobile phone networks

By James Kyng in Beijing

China Unicom, the number two state telecommunications carrier, plans to invest the equivalent of \$3bn in building GSM mobile phone networks to challenge China Telecom, the dominant state carrier.

The plans are the latest sign that Unicom, which has 46 co-operation agreements worth \$1.4bn with foreign operators such as France Telecom and Deutsche Telekom, has won

official approval after struggling to gain a foothold in the Chinese market since it was established in 1994.

The news of Unicom's plan to expand phone systems using GSM technology - the de facto world standard - in China may benefit European suppliers such as Nokia, Ericsson, Alcatel and Siemens. It may also result in increased orders for local manufacturers, such as Huawei Technologies, that have developed their own GSM

network systems. China has the world's fastest growing mobile telephone market, with 1m people signing up a month.

Officials said in March that CDMA - code division multiple access - the US-developed mobile telephony standard, would be shortly approved for sale throughout China.

A Unicom official said the intention to expand its GSM system did not affect its plans to roll out a CDMA network in China. There are, however, questions over how the company can finance its capital spending plans.

Chinese state banks say they are willing to lend to Unicom but it is unlikely that they can make available credit sufficient to finance Rmb 23.8bn (\$2.87bn) in capital spending.

Unicom has traditionally relied on foreign companies to provide capital on the understanding that the foreign company would receive a share of the profits through consul-



EDWARD LUCE
GLOBAL INVESTOR

Crossing the default line

It is not often that representatives of the global bond markets clash with the International Monetary Fund. But moves by the IMF to encourage a number of developing countries to default on their foreign bond obligations has sent many into a lather.

Defenders of the status quo say bonds are very different from other types of debt on which emerging markets often default. For example, commercial bank loans are extended by professionals who can do a credit assessment of the borrower before signing up to the deal.

In addition, it is rare for loan syndicates to be composed of more than 50 banks, which makes it relatively easy for creditors to achieve unanimity on the conditions of a debt restructuring. The same applies even more strongly to the process of rescheduling concessional debt from the Paris Club of official creditors.

In contrast, large sovereign bonds are often scattered among hundreds - sometimes thousands - of investors.

This makes it tricky to achieve consensus on conditions for restructuring coupon and principal repayments on bonds and opens the process to almost certain litigation. It also penalises retail investors who buy Eurobonds on the assumption they are safe, say critics of the IMF.

Furthermore, according to Medley Global Advisers, a consultant to hedge funds, the market believes that allowing

sovereign bonds to be restructured "would not only significantly increase the cost of capital market issues for most developing countries but would also close access to bond markets for a number of sovereign issuers just when this access was most needed".

Such was the degree of opposition in the IMF's suggestion this year that Pakistan should reschedule \$600m worth of sovereign bonds that Pakistan rapidly distanced itself from the suggestion. The outcry partly stemmed from the fact that many in the bond markets believed the IMF was using Pakistan as a guinea pig for a manoeuvre that would later be applied to Russia with its larger sovereign bond debt of \$150m.

Apart from the IMF, some European governments also favour changing the documentation on bonds to allow sovereign restructuring.

Eurobonds have been treated differently from commercial loans because sovereign governments never bothered to visit the bond markets and thus had few obligations to service. There was little point in the Paris Club imposing "comparability" of restructuring on the bond markets when more than 90 per cent of sovereign commercial debt sector was owed directly to banks.

However, since the Latin American debt crisis of the 1980s, emerging markets have turned increasingly to the bond markets to take advantage of fixed rate



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PROPERTY GROUP'S FORMER CHAIRMAN IS THOUGHT TO HAVE DROPPED PLANS TO TAKE OVER ENTERTAINMENT DIVISION

Chesterfield names advisers to value unit

By Susanna Doyle

Chesterfield Properties, the property group, has appointed advisers to help it value its entertainment division.

Roger Wingate, the largest shareholder and former chairman of the group, is understood to have dropped his plans to take over the division, which has eight West End theatres including Wyndham's and the Donmar Warehouse, a theatre

production company and a film and television distribution arm.

The group has appointed Investec, which has a specialist media team through its Investec Henderson Crosthwaite Corporate Finance division, to study possible disposal routes, which might include a demerger.

Chesterfield announced in February that it planned to sell its assets and return the proceeds to shareholders.

Since then it has received a bid approach from Quintain Estates & Development which said it would sell all the London properties - including the entertainment division - to Benchmark Group.

According to people close to Chesterfield, the group feels that valuations of the entertainment division fail to reflect the potential of the business.

They said price tags in the region of £15m-£20m reflect

only the value of the properties in the portfolio.

"Chesterfield as a whole has made a loss but the entertainment business is one which has double digit operating profits and it is clear that there is some value-added in there," said one.

The winding-up of Chesterfield was hailed as a sign of long-awaited consolidation among smaller, quoted property companies.

However, events have frustrated many shareholders who felt the personal agendas of some were being put ahead of those of investors.

Within days of the first announcement, it emerged that Chesterfield had already found buyers for parcels of its assets.

In particular a £93.5m portfolio which was to be sold at a discount to its 1997 net asset value to GE Capital in return for deferred

non-interest bearing loan notes.

In addition it was revealed that Robert Maxted, chief executive, would resign his post and take up a role in managing those assets for GE.

Mr Maxted said he did not participate in the board's discussions of the sale.

At the end of last month, shareholders at an extraordinary meeting voted to give the board extra time to consider all the options.

M&S to launch promotion campaign

By Peggy Hollinger

Marks and Spencer, which is in the midst of an extensive corporate restructuring after making a surprise profits warning in January, will next week launch a large-scale promotion campaign aimed at winning back consumer confidence.

The promotion, which will for the first time encompass both food and non-food products, will involve extensive advertising in the press and on radio for the rest of the year. The company refused to comment on the scale of

its spending on the campaign.

Peter Salisbury, chief executive, sent a memo to all staff early last month stressing the importance of the campaign, which will be aimed at re-emphasising the company's strengths. Under the heading immediate priorities, Mr Salisbury wrote: "We have to restore quickly our customers' confidence in Marks and Spencer as their preferred retailer." Staff would need to "provide visibly better service", he said.

Mr Salisbury insisted that although the promotion

would carry "even better values compared with last year, this would not be a lower price promotion". M&S is hoping to restore its image as an innovative retailer by highlighting the extent to which the products it sells are unique. It is launching new product ranges, such as non-polish shoes and knitted viscose t-shirts with lycra at lower price points. This will allow it to claim it is not price cutting, but merely creating better value for consumers.

New food products are also being introduced and, like

non-food, will be highlighted in even the smallest stores with highly visible displays.

Mr Salisbury's memo was issued shortly after the first meeting of the group's executive directors following a shake-out in February saw the departure of 31 of their number, including three board directors. The memo provided several clues of the substantial challenges faced by M&S as it seeks to change its highly bureaucratic culture.

Mr Salisbury said, for example, that a second immediate priority was to create "a way of working together which enables decisions to be made which are not encumbered by hierarchy. We must challenge all aspects of the traditional way in which senior management are treated differently."

Terranova investors cool on Unigate bid price

By Maggie Urry

Investors in Terranova, the chilled convenience foods group fighting a hostile £225.5m bid from Unigate have said the dairy, bacon and distribution company will have to raise its offer if it is to prevail.

Terranova, which was demerged last year from Hillsdown Holdings, the food-based conglomerate, has taken its case to institutional shareholders, arguing in a series of presentations that Unigate's offer of 125p a share undervalues it.

One investment manager with a significant shareholding said: "Frankly the offer is too low." He said that Terry Stannard, Terranova's chief executive, had made a good argument for a higher offer.

Analysts believe Unigate might have to pay up to 150p a share to win agreement from Terranova, although suggestions of a price as high as 200p were rejected by investors.

"The market is telling them [Unigate] they need to pay more, though I do not think it has to be quite as racy as the defence document suggests," said one shareholder.

The defence document was sent to shareholders last week.

Terranova is also thought to be seeking a friendly bidder to trump Unigate's offer.

Although observers believe UK venture capitalists and other quoted food groups have only a limited interest in buying the company, they say it is more likely that a counter-bidder might come from overseas, possibly continental Europe.

Terranova's share price has remained above the offer price since the bid was launched in mid-March. On Thursday it closed unchanged at 155p.

Unigate directors have agreed to meet one of Terranova's large shareholders this week in advance of the first closing date for the offer on Thursday.

One observer suggested it would be in shareholders' interests if the two sides ceased hostilities and met to discuss a price Terranova would find acceptable.

Terranova was demerged from Hillsdown last October and started trading at 142½p. However, since then the shares have drifted down to a low of 75½p as the food sector and smaller companies in general underperformed the market.

Unigate has set a first closing date of April 8.

Three former directors of Hillsdown Holdings who left the group last year, shared £1.4m in compensation for loss of office and additional pension contributions on top of their salaries up to their leaving dates.

The group underwent a restructuring during the year, demerging two subsidiaries and selling a number of businesses.

George Greener, who had been chief executive but left at the end of August, received £943,000 in compensation and £250,000 in salary and benefits. In 1997 his salary totalled £441,000.

Ray Mackie, the former finance director who left in May, was awarded compensation of £277,000 on top of his salary and benefits of £165,000. In 1997 he received £276,000.

Bill Clark, who left at the end of June, was paid compensation of £265,000, and his salary totalled £198,000. In 1997 he earned £296,000.

Michael Teacher, who was on the board for the full year but was promoted to chief executive in September, received a total salary of £404,000, up from £296,000 previously.

Pru to review stake in SJPC

By Jim Kelly

Prudential, the UK's largest insurer, is reviewing its 29.9 per cent stake in St James's Place Capital - the financial services holding company for J Rothschild Assurance.

The review has been forced on Prudential as a result of its agreed £1.5bn cash offer for M&G Group, the UK's oldest unit trust manager.

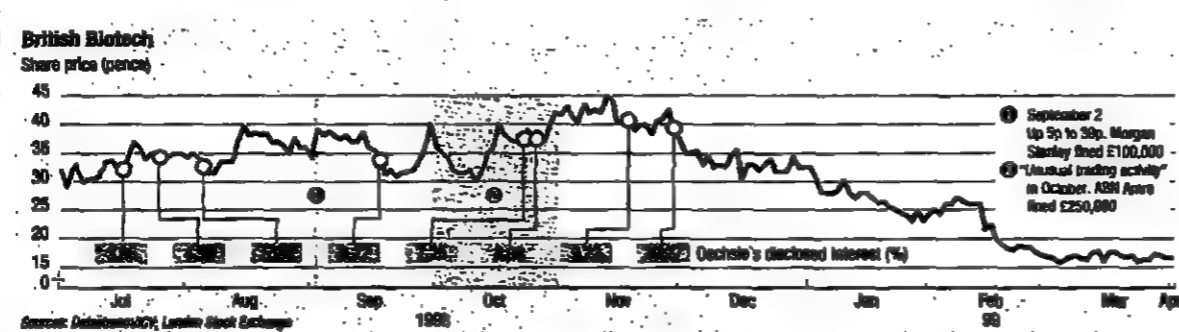
If that deal goes ahead Prudential will have to sell equity in St James's Place Capital or launch a full bid. This is because M&G has a holding in St James's Place which would push Prudential's stake marginally beyond 30 per cent - the threshold set by regulators at which it must make an offer for the outstanding shares.

Prudential said yesterday that if the M&G deal was completed as expected in late June, it would have to consider its options.

"We haven't really taken a decision one way or another," it added.

Prudential's offer of £25 a share for M&G was 40 per cent above the fund manager's closing price before the deal was announced in early March, and equal to 10 per cent of the £18.5bn of total assets under management, an unusually high percentage.

Prudential justified the level of the offer by saying it expected the UK unit trust market to almost double in size to £420bn by 2003.



Oechsle's Biotech stake down £15m

By Clay Harris

Oechsle International Advisers, the fund manager being investigated by the US Securities and Exchange Commission over its dealings in British Biotech, has seen the value of its holding in the UK company fall by about £15m since November.

Oechsle steadily built up the stake in the last half of 1998, a period including the trades that led the London

Stock Exchange last week to fine ABN Amro Equities (UK) £250,000 and Morgan Stanley Securities £100,000. The exchange said the firms had accepted orders that included the instruction to move a share price.

Oechsle holds the stake on behalf of discretionary clients. Since it last disclosed an aggregate holding of 10.27 per cent on November 30, British Biotech's shares have lost more than half their

value, from 39p to 16½p. Many of the shares were bought below 30p.

On Friday, Oechsle said the SEC was conducting an inquiry into trades placed by one portfolio manager, who had been placed on administrative leave. The manager handled a "small number of accounts with a specialised investment approach".

Oechsle has also disclosed to the stock exchange holdings of nearly 6.3 per cent in

Somerfield, the supermarket chain, 3.18 per cent of Pilkington, the industrial materials group. Its interests in

Matthew Clark, the cider maker later taken over by Canadigua Brands, and Huntingdon Life Sciences, the contract research group, fell below the 3 per cent disclosure threshold in August.

Oechsle's US advisory clients include AAL Capital Management, a Lutheran-oriented investment group.

Limit to merge managing agencies

By Andrew Bolger, Insurance Correspondent

Limit, the biggest corporate insurer in Lloyd's, is to merge its two wholly-owned managing agencies, Bankside and Janson Green, into a single entity for the 2000 underwriting year.

Limit said the new combined agency, to be called Limit Underwriting, would control eight Lloyd's underwriting syndicates with total capacity - the amount of insurance premium they can underwrite - of about £750m, some 8 per cent of the Lloyd's market.

The managing agency will have as chairman Brian

FitzGerald, chief executive of Janson Green. Its chief executive will be Elvin Patrick, Bankside chief executive.

Steven Burns, Janson Green finance director, will be the new agency's managing and finance director and Peter Grove, Bankside underwriting director, will fulfil the same role in the merged entity.

Limit also announced board changes, reflecting its transformation last year from investment trust status into an operating insurance underwriting business.

Mr FitzGerald becomes deputy chairman, Mr Patrick managing director and Mich-

ael Carpenter chief financial officer.

Limit said its underwriting return for the 1998 account after expenses amounted to 6 per cent on its capacity of £560m.

Its return on Bankside and Janson Green capacity was 13.3 per cent and on non-aligned capacity 4.9 per cent. For the 1996 account, £73.2m of Bankside and Janson Green capacity was supported by Limit, accounting for 13 per cent of the total.

The company said the underlying return on the £600m of capacity supported for the 1997 account was now expected to be about

break-even. After crediting the refund of the special central fund contribution, the return was estimated at about 1.5 per cent before any change in provisions, which was expected to be a net release.

Limit said the outlook for the 1999 year of account had deteriorated in recent months, with a high level of losses incurred exacerbating the very competitive rating environment.

The year would probably therefore show a small loss which would, however, be restricted by stop-loss reinsurance arrangements recently entered into with Munich Re.

EMERGING MARKETS PRICE RISE OFFERS RAY OF HOPE IN THE FACE OF DAUNTING ECONOMIC PROBLEMS

Oil upturn raises spirits in Venezuela

By Raymond Collitt in Caracas

A faint air of optimism has crept into Venezuelan financial circles over the past two weeks. The country's daunting economic challenges now seem just a touch easier to tackle than they did only two months ago. What has changed?

Some analysts argue that within Venezuela itself, little has changed. "The driving force is oil. It is the key story in Venezuela," says Jose Luis Daza, emerging markets analyst with J.P. Morgan in New York. "On the economic front, little has happened."

Indeed, with two-thirds of the country's foreign exchange and about 40 per cent of the central government's budget coming from petroleum sales, the price of oil has long been a barometer of the country's financial and economic health.

Following production cuts agreed in The Hague last month by leading oil producers and approved at the recent Opec meeting in Vienna, Venezuela's basket of oil products jumped from an average \$8.25 in February to above \$13.

The Caracas stock exchange index gained 7.71 per cent in a three-day rally last week, closing at 4,133.89

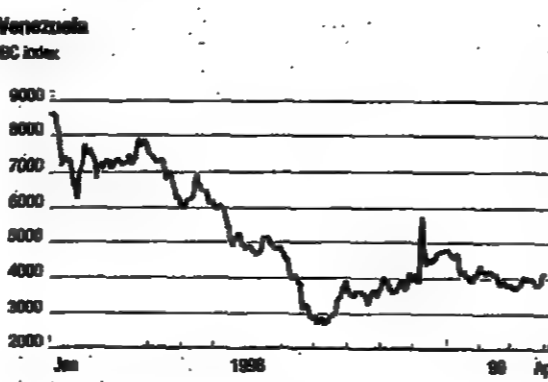
on Wednesday. That is still down 13.67 per cent for the year and compares with a 12-month high of 7,685. Volume, however, picked up notably, nearing \$3m a day. (The markets were closed on Thursday and Friday for the Easter holiday.)

"There is general optimism because of the recovery of the oil price. Nobody wants to miss the upturn," says Luis Garrido, chief analyst with Merinvest, a local investment bank. He says government revenue increases by 0.5 per cent of gross domestic product for every \$1 increase in the price of oil.

The government is equally hopeful of a sustained oil price recovery. Maritza Izaguirre, finance minister, is already talking of possibly cutting short the duration of an emergency financial transactions tax, recently approved by congress to help reduce a budget deficit estimated at 9 per cent of GDP.

The government hopes for an average oil price of \$12 and windfall oil revenue of \$2bn beyond its 1999 budget, calculated at \$9 a barrel.

Adding to the upbeat market sentiment, says Jose Toms Duarte at Econinvest, a local brokerage, is the recent congressional approval of economic emer-



gency measures that could raise as much as 2 per cent of GDP. "The solution to the budgetary problem now seems a little easier than it did just a month ago," says Mr Duarte. "This could be the beginning of investors positioning themselves for a long-term rally."

Still, other than the telecommunications provider CANTV and power company Electricidad de Caracas, the two blue-chip utilities, few stocks drew much attention. "Other than a couple of habitual buyers, we did not see new foreign investors moving in," says Merinvest's Mr Garrido. Though he suggests some foreign investment funds could enter the market this week, "it will

require more good news to back up this upward trend".

Many investors watching Venezuela from the sidelines are becoming restless. They remember the country's dramatic turnaround in 1996, when rising oil prices and an agreement with the International Monetary Fund pulled the country out of deep financial trouble and sent the equity soaring - more, in fact, than any other stock exchange that year.

Most analysts believe a prolonged rally in the equity market will be possible only if President Hugo Chavez adopts a more market-friendly tone and clinches a deal with the IMF.

Without an IMF-backed economic programme, says

Mr Daza, Venezuela would have a hard time raising the \$30m it is hoping for from the international capital markets, in spite of improving investor sentiment towards Latin America.

Mr Chavez, a populist former coup leader who took office on February 2, has abandoned much of his anti-establishment campaign rhetoric and appears increasingly disposed to adopt market-oriented policies. He recently announced the privatisation of state assets in the aluminium and power industries, one of the clearest indications yet that he is willing to embrace private-sector participation even in key sectors of the economy.

Mr Chavez has also pledged to stick with the current budget regardless of the oil price. Yet history shows that few Venezuelan governments have kept such promises; rising oil prices have proved before to be a double-edged sword for economic reform.

"With a stronger oil price, [Mr Chavez] could pay even less attention to the economic problems," says Carlos Janada, senior Latin America economist with Morgan Stanley Dean Witter. "The government still faces a number of structural problems."

NEWS DIGEST

INFORMATION TECHNOLOGY

Cap Gemini sells UK training side for £32.5m

Cap Gemini, the largest European IT services group which is quoted on the Paris bourse, has sold its UK education and training division to QA Group, part of Skillsgroup, for £32.5m. The sale will enable Cap Gemini to focus on its core IT services business in the UK and will turn QA Training into the biggest IT training group in Britain. The deal includes the provision of training services by QA Training to Cap Gemini in the UK and Ireland for two years. QA will also be the preferred supplier for two years after that. Cap Gemini's decision to sell its IT training division follows a review of the UK IT market which concluded that in order to expand the business, substantial investment would be required to meet market demands for a broader product range and extended delivery mechanisms. Paul Taylor

PRIVATE EQUITY

MTI to fund Global Silicon

MTI, the early stage venture capital provider, yesterday completed a £2m deal to fund the development of Global Silicon. It is a start up project which has developed a new approach to the design and manufacture of hi-fi equipment. The group will use the funds to invest in developing a line of products. Currently hi-fi units use a number of circuit boards to run smoothly. Global Silicon has developed the technology to reduce the number to two.

Paul Castle, chief executive of MTI Partners, said: "It is a very early stage deal for us. These products will be designed and developed by Global. Their manufacture will be undertaken in the Far East with intellectual property residing with Global Silicon. The actual products will then be brought to market by names one recognises on the high street with the first products on the high street by Christmas 2000." Richard Rivlin

CHEMICALS

Banner chairman steps down

Stuart Lloyd has stepped down as chairman and chief executive of Banner Chemicals, as part of efforts to cut costs. The chemicals distribution company, formerly known as Sutcliffe Speakman, said Mr Lloyd had offered to resign after a year of difficult trading. Banner, which warned on profits in January, added that trading continued to be difficult.

The departure of Mr Lloyd, who oversaw the group's recent restructuring, would contribute toward savings of £400,000 in 2000. However, there would be one-off exceptional charges of £300,000 in 1999 associated with cost-cutting. Banner said Mr Lloyd, whose annual pay package was worth about £170,000, had been instrumental in overseeing the transformation of Banner, which was created after Sutcliffe sold its carbons and environmental engineering division in May for £24.4m. This helped lift pre-tax profits from £2.51m to £14m in the six months to September. However, Banner warned in January that poor demand had squeezed operating margins and it expected second-half results to disappoint.

Following Mr Lloyd's departure, Alan Howarth, 37, has been appointed group managing director. Dan Blifelsky

TELECOMMUNICATIONS

Telewest's £400m bond issue

Telewest Communications, one of the UK's biggest cable telephony groups, has raised nearly £400m in an issue of high yield bonds to refinance debt following its acquisition of General Cable and Birmingham Cable last year.

Telewest raised £200m and £300m (£18m) in two issues of 10-year zero coupon notes, in what bankers said was a substantial lift for Europe's fledgling high-yield or "junk" bond market, which is slowly finding dedicated pools of willing investors. The £200m issue was priced to yield 539 basis points over the 10-year benchmark UK government bond, and the £300m issue will yield 402 basis points over 10-year US treasury bonds. Charles Burdick, group finance director, said the terms were "very favourable". Vincent Boland

BUILDERS' MERCHANTS

Travis Perkins' £11.5m deal

Travis Perkins, the builders' merchant, is buying 15 outlets for a total of £11.5m cash. Nine are in London and Essex and are being bought from Smith and Sons, a private company. Six other outlets are independent branches in Glasgow, Bletchley, Watford, Kidwelly, Ottershaw and Totnes. The outlets have total annual sales of £20.3m. Charles Prebble

DISTRIBUTORS

SEP shares suspended

Shares in SEP Industrial were suspended on Thursday after the Midland-based components supplier postponed reporting its annual results because of "possible accounting irregularities". The company said it now expected to report results for the year to September 30 sometime this month. It would consider the disposal of non-core assets in order to strengthen its financial position. Net debt is about £2m. Dan Blifelsky

BIOTECHNOLOGY

PPL Therapeutics in US link

PPL Therapeutics, the Scottish biotechnology company famous for cloning Dolly the sheep, has signed an agreement with a US-based biotechnology company to examine the feasibility of producing another protein, for human use, in a transgenic animal. The company said it would undertake a feasibility study, expected to take about six months and involving production of a peptide, a human protein, in the milk of transgenic rabbits. If the study proves successful and the US company decides to proceed with full testing, production could be moved to sheep or cows depending on how much of the protein is needed.

PPL declined to reveal which illness the study was targeting, the name of the US partner or the commercial terms. Virginia Marsh

PRINTING, PAPER & PACKAGING

RPC spends £4m on PET

RPC Group, the plastic packaging producer, has spent £4m on PET container equipment, following the decision of a competitor to quit the business. It said it was buying single-stage manufacturing equipment for the containers from Able Industries, part of the Robinson Group, which was withdrawing from this segment to concentrate on PET preforms and bottles. Shares in RPC lost ½p to 180p on Thursday when the deal was announced. Virginia Marsh

150 من الاجل

TELECOMS CONSOB TRIES TO CLARIFY MARKET CONFUSION OVER HOSTILE BID FOR TELECOM ITALIA

Regulator seeks answers from Olivetti

By Paul Betts in Milan

ConsoB, the Italian stock market regulator, has asked Olivetti to clarify two key aspects of its €60.4bn (\$65bn) hostile bid for Telecom Italia in what is expected to be a decisive week in Europe's largest postwar takeover battle.

The watchdog told the Italian information technology and telecommunications group to disclose at its shareholders meeting on Wednesday the precise con-

ditions under which it would withdraw its bid. ConsoB also instructed it to specify the minimum number of shares it would accept if it failed to secure all Telecom Italia outstanding voting shares.

ConsoB's demands on Friday came amid continuing confusion in the market about the terms and conditions of Olivetti's bid.

Roberto Colaninno, Olivetti chief executive, said last week that he would consider withdrawing the offer

if Telecom Italia shareholders voted at an extraordinary meeting on Saturday to back the package of defensive measures proposed by Franco Bernabè, Telecom Italia chief executive.

Mr Colaninno was speaking after announcing that Olivetti was raising its bid from €10 to €11.50 a share.

Telecom Italia's bankers have argued that Olivetti's threats to withdraw its bid put undue pressure on shareholders in the run-up to Saturday's extraordinary

meeting in Turin. If the bid goes ahead, ConsoB also wants Mr Colaninno to specify the minimum stake Olivetti would be prepared to accept.

The watchdog argues that Olivetti has so far given the market confusing signals.

Olivetti originally said it would consider the offer successful if it secured 67 per cent of all outstanding voting shares. However, Mr Colaninno has since indicated on various occasions that Olivetti would be pre-

pared to accept less than that.

At a presentation on Wednesday to financial analysts in Milan he confirmed Olivetti was reserving the right to accept less than 67 per cent.

"No one is interested in 10 per cent," Mr Colaninno said. But the company would clearly consider accepting 30 per cent, he suggested.

This issue has been an increasing worry for Telecom Italia management. The privatised telecoms operator

fears that Olivetti would be able to undermine its current management and paralyse board decisions even if the bid failed but Olivetti ended up with a stake of, for example, 30 per cent.

At present, no single Telecom Italia shareholder can hold more than 3 per cent of voting rights even with a stake of more than 3 per cent of the capital. However, the 3 per cent voting limit is cancelled in the event of a takeover bid for the entire share capital.

NEWS DIGEST

ELECTRONICS

AMP chief quits 'to pursue other opportunities'

Robert Ripp, who took over as chairman and chief executive of AMP last year after the US electrical and electronic connector business received a hostile \$10bn bid from AlliedSignal, is to resign from the company at the end of this month.

After bitterly contesting the AlliedSignal offer, AMP found a "white knight" in Tyco, the acquisitive conglomerate, and agreed to an \$11.3bn share swap offer. When the deal was announced, it was suggested that Mr Ripp would serve on the Tyco board and continue as president of AMP.

However, as shareholders approved the deal last week, Mr Ripp issued a statement saying he had "come to realise that I want to pursue a number of other exciting opportunities. As such I have decided to resign... and not stand for election to Tyco's board of directors."

Mr Ripp joined AMP in 1994 after almost three decades with IBM. His elevation to the top job was unusual, coming when the company was already in the midst of the bid battle - and was accompanied by an accelerated restructuring plan, designed to persuade shareholders not to accept the AlliedSignal bid. Nikkai Tait, Chicago

Philips extends offer for VLSI

Philips, the Dutch electronics group, has extended its \$17 a share offer for VLSI Technology, the Californian semiconductor company, until April 16. VLSI once again urged its shareholders to reject the offer. Philips said only 144,000 shares, of a total of 48.6m, had accepted the offer by the first closing date of April 1.

VLSI shares were unchanged on Friday at \$19. The Dutch group launched its hostile bid on March 5, after VLSI rebuffed its approaches. The offer of \$17 represents a premium of 58 per cent over the VLSI share price of \$10.4 on the day before Philips' interest in buying the company became public.

Philips is thought to be one of a number of companies to have expressed interest in buying VLSI, which produces custom-made chips used in a range of devices such as cellphones, video games and satellite TV boxes, as well as computers. VLSI has resisted all takeover offers, and announced last week that it had received its largest ever order, from Korea's Samsung Electronics, for \$34m worth of chips for cellphones. Roger Taylor, San Francisco

BANKING

Vontobel lifts profits by 46%

Vontobel Group, parent of Zurich's second biggest private bank, increased its 1998 pre-tax profits by 46 per cent to SF252.4m (\$170.5m) and boosted its return on equity to 31.3 per cent.

Vontobel's 1998 performance underscores the sharp improvement in profitability of Switzerland's private banks over the past three years. Vontobel's net profits have jumped from SF144m in 1995 to SF198.6m in 1998 and assets under management have more than doubled to SF54.9bn.

Julius Baer, Vontobel's bigger rival, increased its return on equity to 21.6 per cent in 1998. Both Zurich banks have been capturing business from UBS and Credit Suisse, Switzerland's big two banks, and their limited exposure to investment banking has allowed them to generate much higher returns on equity.

Vontobel's net fee and commission income rose by a third, to SF348m, and its trading profits rose by 57 per cent, to SF174m. By contrast UBS's trading income fell 88 per cent and Credit Suisse's trading income fell 55 per cent in 1998. Vontobel is increasing its dividend by 25 per cent, to SF50 per bearer share, and proposing an extraordinary dividend of SF75 per bearer share to mark its 75th anniversary. William Hall, Zurich

FUTURES EXCHANGE

Eurex outstrips CBOT

Eurex, the European futures exchange, notched up record monthly trading volumes in March - meaning that it has now outstripped the Chicago Board of Trade as the world's largest futures market for the first quarter of 1999. Eurex said that 33.8m contracts were traded in March, a 74 per cent increase over the figure a month earlier, and well ahead of 28.8m contracts exchanged in September last year, the previous monthly high for the exchange. It is the first time that a futures exchange has claimed to have handled more than 30m contracts in a single month.

By contrast, the Chicago Board of Trade saw volumes dip slightly, year-on-year, last month. Total volume was 23.4m contracts, compared with 23.8m in March 1998 and 25.8m in February. Volumes in agricultural and stock index futures were up year-on-year, but financial futures saw a decline in volume. Nikkai Tait

CORRECTION

Insurance companies

Due to a tabulation error by the Financial Times, the status of some US insurance companies was stated incorrectly in a table in the edition of April 1. TAA, New York Life and Northwestern Mutual are mutual companies. Hartford Financial and Cigna are public.

EUROPEAN DEPOSITORY RECEIPTS ISSUERS DISCOVER ADVANTAGES OF RAISING CAPITAL IN NEW CURRENCY

Hungary blazes trail to euro-zone

By Khosro Merchant

The market for European depository receipts (EDRs) has sprung into action. Borsodchem, Hungary's leading chemicals company, launched an EDR facility last week that allows investors to buy and trade its shares in euros.

In the next few weeks, at least three other Hungarian companies will establish similar facilities. They could be followed by Gazprom and Lukoil, the Russian energy groups; Poland's Kredyt Bank; and Estonian Telecom, which recently completed an initial public offering.

Companies from Turkey, Greece and Slovenia are planning to follow suit in the coming weeks, and some of the programmes involved will include raising new capital as well as allowing for euro-denominated trading.

"Issuers have digested the two inaugural EDRs and understand what they will achieve through this form of capital-raising," says Mike Hughes at Bankers Trust, which arranged the first full EDR programmes - for Zagrebacka Banka, the Croatian bank, last November, and the Egyptian brewery Al Ahram in January. "With the euro settled, issuers are keen to move forward."

Despite the arrival of the euro, EDR issuance has taken a while to grab the imagination of company

finance chiefs. This is in sharp contrast to the steady flow of American and Global Depository Receipt issuance.

In the first quarter, 17 EDRs were issued, raising a total of \$2.5bn, according to Bankers Trust. European companies led the way, with 10 issues, followed by Asia (five), and Latin America and Africa, with one each. Of the 17 issues, 12 were ADRs, which have historically been the most popular. There are some 2,000 ADR programmes, worth about \$400bn.

EDRs offer many of the benefits of ADRs and GDRs. They allow access to new sources of funding, diversify the shareholder base and increase the liquidity of issued share capital. From the investor's point of view, trade and settlement is in more sophisticated home markets; foreign custody charges are eliminated; dividend payments are made in euros; and there is transparent price comparability against peer companies in the euro-zone.

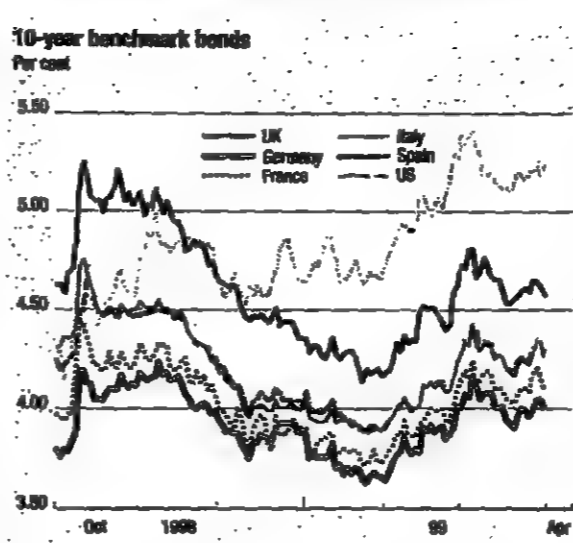
For these reasons, bankers say EDRs are likely to appeal particularly to companies from eastern Europe, just as ADRs are favoured by Latin American companies. As neighbours and potential members of the European Union, emerging Europe is home to hundreds of capital-hungry companies keen to tap the euro-zone investor base.

OTP, Hungary's largest bank, Zalahamia, a ceramics company, and TVK, a chemicals group, will launch facilities similar to that of Borsodchem - a "non-offering" EDR facility because it did not raise new capital. Instead, these limited EDR facilities are designed to create a broader euro-zone investor base and boost secondary trading.

Few expect EDR issuance to become a boom industry, at least for the moment. With pan-European investment the vogue among institutional investors, "emerging markets will remain well down on the list of priorities," says Christopher Sturdy at Bank of New York, which is arranging the Hungarian EDR programmes.

But as more euro-zone investors benchmark their performance against euro-denominated indices, depository receipts will become more popular when denominated in euros. "Euro-based investors will find it is more convenient to trade in securities denominated in euros," Mr Sturdy says. At the moment most emerging market funds benchmark against a dollar-denominated index.

The Hungarian EDR issues, like those from Croatia and Egypt, will be listed on the London stock exchange. Several Hungarian companies already have GDRs listed in London, which is regarded as the



most developed market for emerging market depository receipts. London has 101 GDR listings from companies in 35 countries which have raised £13bn in the past five years.

In the first two months of 1999, 42 per cent of all equity traded on the London exchange was in euro-denominated stock. Joanne Menges, at the LSE, says the exchange is well placed to attract more EDR listings, offering access to "the largest pool of international investment capital in the world and the fact that we operate the most liquid secondary trading."

The only bureau actively promoting EDRs, however, is

the Paris stock exchange. It has launched a deal with Citibank, under which clients would list on the exchange but use the US bank as the depository.

The Paris bourse has yet to attract issuers, but it says it is talking to six potential issuers from Latin America.

Bankers say a genuinely liquid EDR market should not be driven simply by structural deficiencies in emerging markets but by a desire to hold stock originating from those countries.

"There has got to be a desire for emerging market stock, and when there is, then you will have a proper market," says John Millar at Merrill Lynch.

Cross-border M&A deals at record levels

By Tracy Corrigan in New York

Cross-border mergers and acquisitions activity reached a record \$260bn of announced deals in the first quarter of 1999, exceeding the previous record of \$207bn in the second quarter of 1998.

According to Securities Data, which monitors transactions, activity in the US M&A market was also robust, with the quarter's \$415bn of announced deals exceeded only by the total in last year's second quarter of \$681.7bn.

In all, deals worth \$635bn were announced in the quarter, following last year's total of \$2,500bn, confounding predictions of a slowdown in the M&A market this year.

Only two of the quarter's 10 largest transactions involved US companies on both sides of the deal, due to a marked increase in activity by European companies.

Goldman Sachs led the

pack in global mergers and acquisitions, while Merrill Lynch continued to dominate debt and equity underwriting, followed by Salomon Smith Barney, according to Securities Data.

The data, support the findings of a report by Moody's, the US ratings agency, which argues that second-tier firms and new entrants to the US securities industry face worsening prospects, while a handful of market leaders are benefiting from the boom in mergers and acquisitions and in the use of international capital markets.

"What is remarkable is the consistency of Morgan Stanley, Stanley, Merrill and Goldman, in league table performance, noted Peter Nerby, one of the report's authors.

Moody's places these three investment banks in an elite group set to dominate the global investment banking industry, and says

J.P. Morgan and Citigroup's Salomon Smith Barney unit are "well positioned, but each faces certain challenges."

The report warns that the industry's "speedy recovery" from the market turmoil of the second half of 1998 may have created a false sense of confidence.

Market volatility and pressure on fees could affect more narrowly focused firms such as Lehman Brothers or Donaldson, Lufkin & Jenrette.

Mr Nerby argues that a strong position in M&A advisory work is increasingly hard to gain, but also increasingly important because it offers high margins and access to other business.

As globalisation creates increasingly complex deals such as the merger of Daimler and Chrysler, only a handful of well established and globally based firms will be able to compete for such transactions, he argues.

KPMG Canada wins more time

By Jim Kelly, Accountancy Correspondent

An Ontario court has ordered a delay in Arthur Andersen's plans to purchase the Canadian practice of KPMG by allowing partners longer to consider alternative proposals.

Judge J.M. Farley, sitting in Toronto, has extended the period before partners vote from April 9 to April 26 after an application for an injunction from David Knight, vice-chairman of KPMG Canada.

"I intend to encourage the partners to vote against the merger," he said later.

The decision is a welcome development for KPMG International, which was rocked by the news of the agreement to merge between Arthur Andersen - the smallest of the Big Five accountancy firms - and its Canadian practice. KPMG immediately announced ambitious plans to integrate more fully its leading

firms around the world. "I'm confident that it is one more positive step towards the day when we can announce that KPMG Canada will remain a valued member of the KPMG International family," said Paul Reilly, chief executive of KPMG International.

It is understood that Arthur Andersen's merger proposals include some clauses guaranteeing partner job security for a limited period, believed to be up to three years.

All KPMG partners are being offered membership of Arthur Andersen's Canadian firm, but not all will become full partners in Andersen Worldwide.

KPMG International hopes it can poach back key partners, particularly in Toronto and Vancouver, and build a new and more profitable practice.

Arthur Andersen appears confident that it can hold on to the firm's leading fee earning partners.

New CIBC chief to focus on retail

By Edmund Alden in Toronto

The Canadian Imperial Bank of Commerce plans to shift new investment to its retail business, despite choosing John Hunkin, the head of its wholesale banking group, as its next chief executive.

Mr Hunkin was given the nod on Thursday by CIBC's board over Holger Kluge, president of the retail and commercial bank.

The choice was widely seen as a decision on whether CIBC would beef up its volatile capital markets business or focus on the more stable retail operation.

But Mr Hunkin said CIBC planned to change its business mix in favour of retail banking. CIBC currently allocates 60 per cent of capital to its wholesale arm and 40 per cent to the retail bank, and Mr Hunkin said he wanted that ratio reversed.

Canadian banks have been re-evaluating their operations following the federal government's decision last December to block mergers involving four of the five largest banks. Most are opting for focused strategies that concentrate on a limited number of profitable divisions.

Despite his capital markets background, Mr Hunkin said he planned to invest in the retail business, particularly wealth management and electronic commerce. "I share investors' wish to realise strong, stable earnings that are not vulnerable to capital markets volatility," he said.

The 53-year-old Mr Hunkin, who will take over on June 3, is credited with turning CIBC Wood Gundy, the brokerage arm, into Canada's most successful investment bank.

EDS shake-up continues with more resignations

By Andrew Edgecliffe-Johnson in New York

Another two long-standing executives of Electronic Data Systems have resigned from the Texas computer outsourcing group in the latest sign of a shake-up by Dick Brown, who took over as chairman and chief executive in January.

The resignations of Gary Rodin, chief information officer, and John Harris, director of corporate marketing, follow the departures of EDS's former chairman, chief executive, chief financial officer and head of human resources in the past year.

Stephen McClellan, computer services analyst at Merrill Lynch, said: "I expect other, more significant roles to depart." Four of the top 14 members of EDS's former executive council had gone and others were likely to follow.

low as the new management brought in its own team.

EDS said: "Turnover in all positions is certainly a reality in a company of our size." The two latest departures were unrelated, it added, as Mr Harris intended to pursue venture capital activities while Mr Rodin "left for personal reasons".

Mr Brown, former chief executive of Cable and Wireless, has begun a cost-cutting programme that includes getting rid of five of the group's nine corporate jets and scrapping reserved parking for executives.

Each employee at EDS, which was founded by Ross Perot and counts the US and UK governments among its largest clients, has been asked to find \$1,000 of cost savings.

The company is the world's largest computer services group after IBM.

In addition, analysts

expect Mr Brown to dispose of the group's least profitable businesses, and to make further acquisitions.

Since his arrival at EDS, Mr Brown has sealed an alliance with MCI WorldCom, in which EDS took over MCI's computer operations through an outsourcing contract and bought its computer services unit for \$1.65bn.

"Investors are favourably receiving the turnaround action," Mr McClellan said, but the results of those actions will take time to show through, he added. First-quarter results, due on April 28, are expected to be weak, with earnings per share likely to fall from 43 cents to 35 cents.

Mr Brown is expected to give more details of cost-cutting, acquisition and investment plans, as well as recent outsourcing contracts, at a briefing on April 28.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
BP Amoco (UK)	Atlantic Richfield (US)	Oil & gas	\$26.8bn	New number two
Vieg (Germany)	Alusuisse-Lonza (Switz)	Conglomerate	\$10bn	No consummation
Renault (France)	Nissan Motor (Japan)	Auto mfrctr	\$5.4bn	Three-tier deal
Huntsman (US)	Units of ICI (UK)	Chemicals	\$2.8bn	Disposal attempt
Endesa (Spain)	Enerdis (Chile)	Power	\$1.45bn	Vote clears way
Fiat (Italy)	Piso (US)	Auto mfrctr	\$630m	Leadership bid
York International (US)	Sabroe Refriger (D'mark)	Refrigeration	\$568m	Lauritzen exit
Schweik (US)	Wace (UK)	Printing svcs	\$167m	Bid withdrawn
Smith Industries (UK)	STS (US)	Aerospace eqpmnt	\$14.5m	Technology move
Ericsson (Sweden)	Unit of Qualcomm (US)	Telecoms eqpmnt	n/a	Ends patent row

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CURRENCIES & MONEY

Traders eye policy

By Robert Crote,
Economics Editor

Traders will have food for thought in the policy meetings scheduled at the European Central Bank and Bank of England this week, with opinions divided on the prospects for lower interest rates in each case.

Growth in the broad measure of money supply has moved further above the 4.5 per cent reference rate specified by the ECB, but declines in business confidence in France and Germany lead many analysts to expect a rate cut before the end of the second quarter. Speculation about a rate cut weakened the euro at the end of last week. The reaction to a move this week will depend on the rhetoric that accompanies it: namely whether there are more cuts signalled to come. Some officials at the International Monetary Fund, for example, favour 100 basis points off by mid-summer. With trading quiet for Good Friday, the euro was

unable to take much comfort from the weakness of US non-farm payrolls at the end of last week. The data made the chances of a near-term US interest rate increase more remote.

Sterling's recent strength against the euro may be one of the factors that prompt the Bank of England to cut rates this week. As with the ECB, most analysts expect UK rates to drop again - although not necessarily at this week's meeting. If they do, then sterling could weaken.

The conflict in Kosovo will also continue to hang over the market, probably providing support for the dollar. A survey by Market News International suggested last week that an early resolution to the conflict would see the euro strengthen against the dollar by at least 2 or 3 per cent.

The euro is expected to remain weak against the dollar in the short term, but some analysts see a strengthening towards the end of the month.

POUND SPOT FORWARD AGAINST THE POUND

Age 2	Country	Spot	1m	3m	6m	12m	18m	24m	36m	48m	60m	72m	84m	96m	108m	120m	132m	144m	156m	168m	180m	192m	204m	216m	228m	240m	252m	264m	276m	288m	300m	312m	324m	336m	348m	360m	372m	384m	396m	408m	420m	432m	444m	456m	468m	480m	492m	504m	516m	528m	540m	552m	564m	576m	588m	600m	612m	624m	636m	648m	660m	672m	684m	696m	708m	720m	732m	744m	756m	768m	780m	792m	804m	816m	828m	840m	852m	864m	876m	888m	900m	912m	924m	936m	948m	960m	972m	984m	996m	1008m	1020m	1032m	1044m	1056m	1068m	1080m	1092m	1104m	1116m	1128m	1140m	1152m	1164m	1176m	1188m	1200m	1212m	1224m	1236m	1248m	1260m	1272m	1284m	1296m	1308m	1320m	1332m	1344m	1356m	1368m	1380m	1392m	1404m	1416m	1428m	1440m	1452m	1464m	1476m	1488m	1500m	1512m	1524m	1536m	1548m	1560m	1572m	1584m	1596m	1608m	1620m	1632m	1644m	1656m	1668m	1680m	1692m	1704m	1716m	1728m	1740m	1752m	1764m	1776m	1788m	1800m	1812m	1824m	1836m	1848m	1860m	1872m	1884m	1896m	1908m	1920m	1932m	1944m	1956m	1968m	1980m	1992m	2004m	2016m	2028m	2040m	2052m	2064m	2076m	2088m	2100m	2112m	2124m	2136m	2148m	2160m	2172m	2184m	2196m	2208m	2220m	2232m	2244m	2256m	2268m	2280m	2292m	2304m	2316m	2328m	2340m	2352m	2364m	2376m	2388m	2400m	2412m	2424m	2436m	2448m	2460m	2472m	2484m	2496m	2508m	2520m	2532m	2544m	2556m	2568m	2580m	2592m	2604m	2616m	2628m	2640m	2652m	2664m	2676m	2688m	2700m	2712m	2724m	2736m	2748m	2760m	2772m	2784m	2796m	2808m	2820m	2832m	2844m	2856m	2868m	2880m	2892m	2904m	2916m	2928m	2940m	2952m	2964m	2976m	2988m	3000m	3012m	3024m	3036m	3048m	3060m	3072m	3084m	3096m	3108m	3120m	3132m	3144m	3156m	3168m	3180m	3192m	3204m	3216m	3228m	3240m	3252m	3264m	3276m	3288m	3300m	3312m	3324m	3336m	3348m	3360m	3372m	3384m	3396m	3408m	3420m	3432m	3444m	3456m	3468m	3480m	3492m	3504m	3516m	3528m	3540m	3552m	3564m	3576m	3588m	3600m	3612m	3624m	3636m	3648m	3660m	3672m	3684m	3696m	3708m	3720m	3732m	3744m	3756m	3768m	3780m	3792m	3804m	3816m	3828m	3840m	3852m	3864m	3876m	3888m	3900m	3912m	3924m	3936m	3948m	3960m	3972m	3984m	3996m	4008m	4020m	4032m	4044m	4056m	4068m	4080m	4092m	4104m	4116m	4128m	4140m	4152m	4164m	4176m	4188m	4200m	4212m	4224m	4236m	4248m	4260m	4272m	4284m	4296m	4308m	4320m	4332m	4344m	4356m	4368m	4380m	4392m	4404m	4416m	4428m	4440m	4452m	4464m	4476m	4488m	4500m	4512m	4524m	4536m	4548m	4560m	4572m	4584m	4596m	4608m	4620m	4632m	4644m	4656m	4668m	4680m	4692m	4704m	4716m	4728m	4740m	4752m	4764m	4776m	4788m	4800m	4812m	4824m	4836m	4848m	4860m	4872m	4884m	4896m	4908m	4920m	4932m	4944m	4956m	4968m	4980m	4992m	5004m	5016m	5028m	5040m	5052m	5064m	5076m	5088m	5100m	5112m	5124m	5136m	5148m	5160m	5172m	5184m	5196m	5208m	5220m	5232m	5244m	5256m	5268m	5280m	5292m	5304m	5316m	5328m	5340m	5352m	5364m	5376m	5388m	5400m	5412m	5424m	5436m	5448m	5460m	5472m	5484m	5496m	5508m	5520m	5532m	5544m	5556m	5568m	5580m	5592m	5604m	5616m	5628m	5640m	5652m	5664m	5676m	5688m	5700m	5712m	5724m	5736m	5748m	5760m	5772m	5784m	5796m	5808m	5820m	5832m	5844m	5856m	5868m	5880m	5892m	5904m	5916m	5928m	5940m	5952m	5964m	5976m	5988m	6000m	6012m	6024m	6036m	6048m	6060m	6072m	6084m	6096m	6108m	6120m	6132m	6144m	6156m	6168m	6180m	6192m	6204m	6216m	6228m	6240m	6252m	6264m	6276m	6288m	6300m	6312m	6324m	6336m	6348m	6360m	6372m	6384m	6396m	6408m	6420m	6432m	6444m	6456m	6468m	6480m	6492m	6504m	6516m	6528m	6540m	6552m	6564m	6576m	6588m	6600m	6612m	6624m	6636m	6648m	6660m	6672m	6684m	6696m	6708m	6720m	6732m	6744m	6756m	6768m	6780m	6792m	6804m	6816m	6828m	6840m	6852m	6864m	6876m	6888m	6900m	6912m	6924m	6936m	6948m	6960m	6972m	6984m	6996m	7008m	7020m	7032m	7044m	7056m	7068m	7080m	7092m	7104m	7116m	7128m	7140m	7152m	7164m	7176m	7188m	7200m	7212m	7224m	7236m	7248m	7260m	7272m	7284m	7296m	7308m	7320m	7332m	7344m	7356m	7368m	7380m	7392m	7404m	7416m	7428m	7440m	7452m	7464m	7476m	7488m	7500m	7512m	7524m	7536m	7548m	7560m	7572m	7584m	7596m	7608m	7620m	7632m	7644m	7656m	7668m	7680m	7692m	7704m	7716m	7728m	7740m	7752m	7764m	7776m	7788m	7800m	7812m	7824m	7836m	7848m	7860m	7872m	7884m	7896m	7908m	7920m	7932m	7944m	7956m	7968m	7980m	7992m	8004m	8016m	8028m	8040m	8052m	8064m	8076m	8088m	8100m	8112m	8124m	8136m	8148m	8160m	8172m	8184m	8196m	8208m	8220m	8232m	8244m	8256m	8268m	8280m	8292m	8304m	8316m	8328m	8340m	8352m	8364m	8376m	8388m	8400m	8412m	8424m	8436m	8448m	8460m	8472m	8484m	8496m	8508m	8520m	8532m	8544m	8556m	8568m	8580m	8592m	8604m	8616m	8628m	8640m	8652m	8664m	8676m	8688m	8700m	8712m	8724m	8736m	8748m	8760m	8772m	8784m	8796m	8808m	8820m	8832m	8844m	8856m	8868m	8880m	8892m	8904m	8916m	8928m	8940m	8952m	8964m	8976m	8988m	9000m	9012m	9024m	9036m	9048m	9060m	9072m	9084m	9096m	9108m	9120m	9132m	9144m	9156m	9168m	9180m	9192m	9204m	9216m	9228m	9240m	9252m	9264m	9276m	9288m	9300m	9312m	9324m	9336m	9348m	9360m	9372m	9384m	9396m	9408m	9420m	9432m	9444m	9456m	9468m	9480m	9492m	9504m	9516m	9528m	9540m	9552m	9564m	9576m	9588m	9600m	9612m	9624m	9636m	9648m	9660m	9672m	9684m	9696m	9708m	9720m	9732m	9744m	9756m	9768m	9780m	9792m	9804m	9816m	9828m	9840m	9852m	9864m	9876m	9888m	9900m	9912m	9924m	9936m	9948m	9960m	9972m	9984m	9996m	10008m	10020m	10032m	10044m	10056m	10068m	10080m	10092m	10104m	10116m	10128m	10140m	10152m	10164m	10176m	10188m	10200m	10212m	10224m	10236m	10248m	10260m	10272m	10284m	10296m	10308m	10320m	10332m	10344m	10356m	10368m	10380m	10392m	10404m	10416m	10428m	10440m	10452m	10464m	10476m	10488m	10500m	10512m	10524m	10536m	10548m	10560m	10572m	10584m	10596m	10608m	10620m	10632m	10644m	10656m	10668m	10680m	10692m	10704m	10716m	10728m	10740m	10752m	10764m	10776m	10788m	10800m	10812m	10824m	10836m	10848m	10860m	10872m	10884m	10896m	10908m	10920m	10932m	10944m	10956m	10968m	10980m	10992m	11004m	11016m	11028m	11040m	11052m	11064m	11076m	11088m	11100m	11112m	11124m	11136m	11148m	11160m	11172m	11184m	11196m	11208m	11220m	11232m	11244m	11256m	11268m	11280m	11292m	11304m	11316m	11328m	11340m	11352m	11364m	11376m	11388m	11400m	11412m	11424m	11436m	11448m	11460m	11472m	11484m	11496m	11508m	11520m	11532m	11544m	11556m	11568m	11580m	11592m	11604m	11616m	11628m	11640m	11652m	11664m	11676m	11688m	11700m	11712m	11724m	11736m	11748m	11760m	11772m	11784m	11796m	11808m	11820m	11832m	11844m	11856m	11868m	11880m	11892m	11904m	11916m	11928m	11940m	11952m	11964m	11976m	11988m	12000m	12012m	12024m	12036m	12048m	12060m	12072m	12084m	12096m	12108m	12120m	12132m	12144m	12156m	12168m	12180m	12192m	12204m	12216m	12228m	12240m	12252m	12264m	12276m	12288m	12300m	12312m	12324m	12336m	12348m	12360m	12372m	12384m	12396m	12408m	12420m	12432m	12444m	12456m	12468m	12480m	12492m	12504m	12516m	12528m	12540m	12552m	12564m	12576m	12588m	12600m	12612m	12624m	12636m	12648m	12660m	12672m	12684m	12696m	12708m	12720m	12732m	12744m	12756m	12768m	12780m	12792m	12804m	12816m	12828m	12840m	12852m	12864m	12876m	12888m	12900m	12912m	12924m	12936m	12948m	12960m	12972m	12984m	12996m	13008m	13020m	13032m	13044m	13056m	13068m	13080m	13092m	13104m	13116m	13128m	13140m	13152m	13164m	13176m	13188m	13200m	13212m	13224m	13236m	13248m	13260m	13272m	13284m	13296m	13308m	13320m	13332m	13344m	13356m	13368m	13380m	13392m	13404m	13416m	13428m	13440m	13452m	13464m	13476m	13488m	13500m	13512m	13524m	13536m	13548m	13560m	13572m	13584m	13596m	13608m	13620m	13632m	13644m	13656m	13668m	13680m	13692m	13704m	13716m	13728m	13740m	13752m	13764m	13776m	13788m	13800m	13812m	13824m	13836m	13848m	13860m	13872m	13884m	13896m	13908m	13920m	13932m	13944m	13956m	13968m	13980m	13992m	14004m	14016m	14028m	14040m	14052m	14064m	14076m	14088m	14100m	14112m	14124m	14136m	14148m	14160m	14172m	14184m	14196m	14208m	14220m	14232m	14244m	14256m	14268m	14280m	14292m	14304m	14316m	14328m	14340m	14352m	14364m	14376m	14388m	14400m	14412m	14424m	14436m	14448m	14460m
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EURO PRICES

EQUITIES

Jaded bourses hope for better quarter

EUROPEAN OVERVIEW

By Vincent Boland

Investors in European shares are hoping the next three months will bring more cheer than the quarter just ended.

Despite starting in a blaze of glory with the launch of the euro and a burst of mergers and acquisitions activity, bourses are looking

a little jaded, observers agree, even without the potential of the war in the former Yugoslavia to cause further damage in the next few weeks.

The FTSE Eurotop 300 index of Europe's leading stocks rose a modest 6.44 per cent in the first quarter of 1999 to 1,258.89, while the FTSE Eurotop 100 index rose 7.3 per cent to 2,930.06.

shares in euro-zone countries gained 3.32 per cent to 1,031.45.

These performances pale in comparison with the Dow Jones Industrial Average, which broke through the 10,000 barrier last week before retreating a little. And they are compounded by the weakness of the euro - a trend not predicted when it was launched - which fell 6 per cent against the US

dollar in the first three months of its existence.

Part of the explanation for the trend in European markets has been a sharp reversal in the recent fortunes of the sectors - pharmaceuticals, telecommunications and media - that led an early surge in performance. Telecoms, especially, have been knocked off their perch by the energy sector, which outperformed in March by 15

per cent, according to Salomon Smith Barney.

Mark Howdle, European market strategist at Salomon, attributes the reversals to rising bond yields, which are bad news for growth sectors.

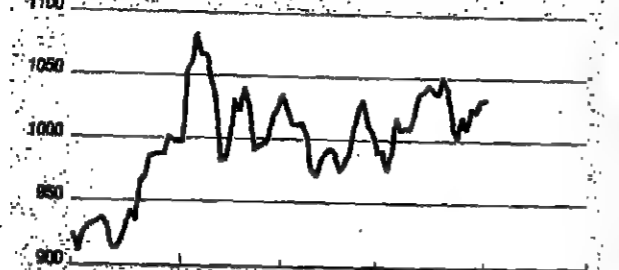
If the remarkable rate of growth of the US economy continues, oil prices keep rising and the Kosovo conflict escalates, bond market yields will rise further, he says.

"This should be a serious concern for equity investors, since current high valuations are closely linked to exceptionally low bond yields," Mr Howdle writes in his April commentary on euro-zone markets.

"Since we believe that bond market movements explain the recent sell-off in growth stocks, we suspect that further rises in bond yields could produce more of the same reaction."

FTSE Eurotop 100

Index



Source: FTSE International

THREE MONTH EUROBOB FUTURES (LFF) Ctm 100 - rate

	Open	Best price	Change	High	Low	Est. vol	Open int.
Jan	97.180	97.185	+0.015	97.210	97.200	180	100,000
Feb	97.220	97.240	+0.020	97.250	97.220	44,970	195,000
Mar	97.250	97.260	+0.010	97.260	97.250	17,000	110,000
Apr	97.260	97.260	+0.000	97.260	97.260	17,000	110,000

THREE MONTH EURO LIBOR FUTURES (LFF) Ctm 100 - rate

	Open	Best price	Change	High	Low	Est. vol	Open int.
Jan	97.180	97.185	+0.015	97.210	97.200	180	100,000
Feb	97.220	97.240	+0.020	97.250	97.220	44,970	195,000
Mar	97.250	97.260	+0.010	97.260	97.250	17,000	110,000
Apr	97.260	97.260	+0.000	97.260	97.260	17,000	110,000

THREE MONTH EURO LIBOR OPTIONS (LFO) Ctm 100 - rate

	Open	Best price	Change	High	Low	Est. vol	Open int.
Jan	97.180	97.185	+0.015	97.210	97.200	180	100,000
Feb	97.220	97.240	+0.020	97.250	97.220	44,970	195,000
Mar	97.250	97.260	+0.010	97.260	97.250	17,000	110,000
Apr	97.260	97.260	+0.000	97.260	97.260	17,000	110,000

THREE MONTH EURO LIBOR OPTIONS (LFO) Ctm 100 - rate

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OTHER INDICES

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FTSE Actuaries Share Indices

European series

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CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

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Jan	97.180	97.185	+0.015	97.210	97.200	180	100,000
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Apr	97.260	97.260	+0.000	97.260	97.260	17,000	110,000

EURO SPOT FORWARD AGAINST THE EURO

Source: Reuters

BONDS

INTEREST RATE SWAPS

	Open	Best price	Change	High	Low	Est. vol	Open int.
Jan	97.180	97.185	+0.015	97.210	97.200	180	100,000
Feb	97.220	97.240	+0.020	97.250	97.220	44,970	195,000
Mar	97.250	97.260	+0.010	97.260	97.250	17,000	110,000
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EURO SPOT FORWARD AGAINST THE EURO

Source: Reuters

EURO SPOT FORWARD AGAINST THE EURO

Source: Reuters

EURO SPOT FORWARD AGAINST THE EURO

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EURO SPOT FORWARD AGAINST THE EURO

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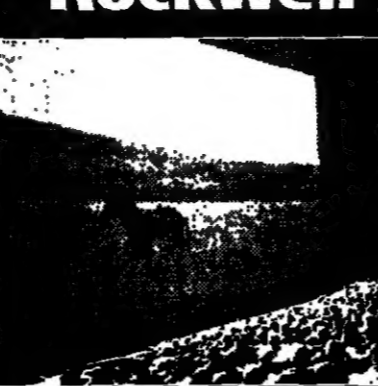
EURO SPOT FORWARD AGAINST THE EURO

Source: Reuters

EURO SPOT FORWARD AGAINST THE EURO

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Highs & Lows shown on a 52 week basis



Rockwell

Rockwell Automation ensures you can watch blockbusting films on IMAX panoramic screens in comfort by regulating ventilation and temperature.

<http://www.rockwell.com>

Emerging markets:

IFC investable indices
Dollar basis

هكذا من اجل

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هكذا من الراحيل

GLOBAL EQUITY MARKETS

US INDICES

Date	Jan 1	Mar 31	Mar 30	1989	Stock completion				
				High	Low				
Dow Jones	992.51	9708.16	9912.26	9908.76	9719.87	10008.00	41.22		
Industrials	(992.51)	(9708.16)	(9912.26)	(9908.76)	(9719.87)	(10008.00)	(41.22)		
Finance	101.95	104.71	104.08	100.88	102.95	107.37	54.08		
Transport	356.16	3288.94	3357.68	3408.07	3309.30	3388.02	73.23		
Utilities	595.01	232.28	235.63	317.81	288.41	335.51	18.53		
Oil	Day's High	Day's Low	Day's High	Day's Low	Day's High	Day's Low	Day's Change		
Commodities	1200.72	1286.27	1300.75	1316.55	1212.18	1348.36	4.40		
Industrials	1260.22	1246.70	1258.48	1258.88	1246.70	1258.48	3.52		
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Commodities									

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THE NASDAQ-AMEX MARKET GROUP

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FT GUIDE TO THE WEEK

MONDAY 5

Lamb import report

The US International Trade Commission (ITC) is to submit its final report on the dispute between New Zealand and the US over lamb imports. The report follows complaints from the



US Sheep Industry Association that a flood of imported lamb is damaging the domestic industry. It also comes after the imposition in March of a 20 per cent tariff on all lamb imports in excess of the 1998 level.

Asean meeting

Yang Wenchang, Chinese vice-foreign minister, will be among officials attending the Association of Southeast Asian Nations (Asean) meeting in Kunming, in China's Yunnan province. Discussions are likely to cover Asian integration, regional security and trade.

Road to Damascus

Miguel Moratinos, the European Union's Middle East peace process envoy, visits Damascus where he will hold talks with Farouk al-Sharaz, the Syrian foreign minister, on the deadlock in discussions between Israel and Syria, and increased tension in South Lebanon.

Last call for mobile tax

Britain's tax on mobile telephones supplied by employers ends today. The tax, introduced in 1991 by Norman Lamont, then chancellor of the exchequer, was aimed at curbing what he felt was a "scourge of modern life."

Holidays

Australia, Hong Kong, New Zealand, South Korea, Taiwan, Benin, Botswana, Cameroon, Central African Republic, Congo, Gabon, Ghana, Israel, Ivory Coast, Kenya, Lebanon, Malawi, Namibia, Niger, Nigeria, Sierra Leone, South Africa, Tanzania, Zimbabwe, Albania, Austria, Belgium, Bosnia, Czech Republic, Denmark, Finland, France, Germany, Hungary, Iceland, Ireland, Italy, Luxembourg, Latvia, Slovakia, Slovenia, Norway, Poland, Slovakia, Sweden, Spain, Sweden, Switzerland, UK.

TUESDAY 6

Zhu goes to the US

Zhu Rongji, the Chinese prime minister, begins a week-long visit to the US, where he is expected to hold talks on bilateral relations, trade, and the Far Eastern economic downturn. Bill



The Kosovo crisis has brought home to Europeans the plight of refugees throughout the world

Clinton, the US president, visited China last year, but relations have soured since the release of the annual US report on global human rights, which criticised China's record. Zhu will meet Clinton at the White House on Thursday.

Lockerbie progress

Two Libyan suspects alleged to be involved in the 1988 bombing of Pan Am flight 103 over the Scottish town of Lockerbie are to be handed over for trial in the Netherlands.

Ibrahim verdict

A verdict is expected in the trial of Anwar Ibrahim, former Malaysian deputy prime minister, on charges relating to corruption, abuse of office and illegal sex. He has denied all the charges and says he is the victim of a political conspiracy.

Cocaine conference

Raymond Kendall, Interpol secretary-general, and police chiefs from about 80 countries will gather in Cartagena, Colombia, for an international meeting on the cocaine trade (to April 9).

Brown's budget

Budget measures including the abolition of advanced corporation tax and the introduction of a new 10p rate of income tax take effect in the UK.

The starting rate of tax is now at its lowest rate for 37 years and has been described by Gordon Brown, chancellor of the exchequer, as a tax that "encourages work and makes work pay".

You only film twice

A dispute between Sony and MGM over a James Bond film will be heard in a Los Angeles court. In March, a federal judge refused to grant MGM a summary judgment blocking Sony's plan to remake the 1965 film *Thunderball*. However, MGM, which claims exclusive rights to the Bond titles, found wording in the judge's order that it claims upholds its position.

Holidays

Hong Kong, Thailand, Israel, Bosnia.

WEDNESDAY 7

Nordic co-operation

More than 100 politicians from Finland, Norway, Sweden and north-west Russia, with representatives of the region's indigenous populations, will attend the Nordic Council's first Barents parliamentary conference over three days in Alta, Norway. The focus will be on welfare development, particularly healthcare and social factors affecting the people who live in

the Barents Sea region. Cross border co-operation on education and transport will also be discussed, as will gender equality.

Age related

In the international year of older persons, the theme for World Health Day is, appropriately enough, active ageing. According to the World Health Organisation, the number of over-60s in the world will rise from 580m now to 1bn by 2020, with 700m in developing countries. The WHO says staying active mentally and physically helps promote a healthy old age but argues that society needs to encourage the contribution of older people and provide appropriate health care and income security.

Eichel takes over

Hans Eichel steps down as prime minister of the German state of Hesse and takes over as the country's finance minister. He replaces Oskar Lafontaine, whose resignation followed tension with Chancellor Gerhard Schröder and frustration at his inability to push through reform in such areas as corporation tax. The post was covered in the interim by Werner Müller, economics minister.

FT Survey

Information Technology.

Holidays

Israel, Mozambique, Armenia.

THURSDAY 8

Buenos Aires bound

The Dalai Lama visits Argentina (to April 11). He later goes to Chile.

Holiday

Azerbaijan.

FRIDAY 9

Djibouti poll

A presidential election is expected to be held in Djibouti. President Hassan Gouled Aptidon of the authoritarian People's Rally for Progress (RPP), who was re-elected in 1993 with 80 per cent of the vote, announced at a special congress of the RPP in February that he would stand down after leading the tiny Horn of Africa state for 22 years. The congress named his chief of staff, Ismael Omar Guelleh, as the party's official candidate.

Crime convention

Eric Holder, deputy US attorney general, is among guests at an

economic crime summit in Orlando, Florida (to April 12).

Holidays

Philippines, Cyprus, Eritrea, Ethiopia, Lebanon, Liberia, Tunisia, Greece.

SATURDAY 10

Gibraltar talks

Tony Blair, the prime minister, and Jose Maria Aznar, his Spanish counterpart, meet to discuss recent tensions over Gibraltar. The two met most recently at the Bonn European Union summit, but failed to make any progress on the latest row, sparked by a fishing dispute.

Unions meet

A joint Western European Union-European Union meeting is held in Bremen. Discussions are expected to focus on regional defence co-operation and pressure for the EU to use the WEU as its defence wing. Germany is the current holder of the presidency of the European Council.

Rugby

Five Nations Championship, Paris: France v Scotland.

Holiday

Eritrea.

SUNDAY 11

Peronists choose

Argentina's ruling Peronists hold their primary election ahead of October's national presidential election.

A quick word

New Zealand's Michael Moore begins his attempt at the world speaking record. He aims to add six hours to



the record that has stood since 1957, when US politician Strom Thurmond spoke against the civil rights bill for 24 hours in 19 minutes. Moore's 30-hour talk is to cover 120 topics, from life in the ice age to the immaculate conception.

Rugby

Five Nations Championship, Wembley: Wales v England.

Holidays

Egypt, Eritrea, Ethiopia, Syria, Albania, Georgia, Macedonia.

Compiled by Roger Beale
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ECONOMIC DIARY

Other economic news

Monday: Another strong month of auto sales is expected in the US for March. Japan's leading indicator of economic activity is thought to have weakened in March. **Tuesday:** Consumer confidence is predicted to have edged a little lower in France last month. **Wednesday:** January's huge jump in US consumer credit is unlikely to have been repeated in February. The rate of decline in Japanese wholesale prices may have slowed in March. UK factory output probably fell in February. **Thursday:** Employment is thought to have risen last month in Australia. The European Central Bank and the Bank of England pronounce on interest rates, with opinion divided as to whether to expect rate cuts. Unemployment should have edged lower in Germany last month. **Friday:** The annual rate of US producer price inflation is thought to have picked up in March, although the core measure probably decelerated. Employment in Canada is forecast to have risen again in March.

Statistics to be released this week

Day	Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day	Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Feb overall PCE**		1.4%		Thu	Aust**	Mar unemployment rate	7.5%	7.4%	
Apr 5	Japan	Feb coincident index		50.0%		Apr 8	Denmark	Feb unemployment rate	6.0%	6.0%	
	Japan	Feb leading differential index		44.4%			Germany	Mar unemployment rate†	-10,000	-6,000	
	US	Mar NAPM (non-manufacturing)		57.0%			W German Mar unemployment rate†	-5,000	-1,000		
Tue	France	Mar household survey		-8	-7		E German Mar unemployment rate†	-5,000	-4,000		
Apr 6	Canada	Mar Foreign reserves		C\$0.5bn	-C\$1.1bn		W German Jan employment rate†	3,000	-7,000		
	US	BTM-Schroders, March 3		1.8%			W German Mar vacancies†	-4,000			
	US	Feb wholesale inventories		-0.2%			W German Mar short time	9,000			
	US	Feb wholesale sales		-1.0%			Germany Feb manufacturing orders*	-0.9%	2.1%		
	US	Feb leading indicators		0.2%	0.4%		US Initial claims March 4	290,000			
	US	Redbook March 4		0.6%			Canada Feb building permits*	2.3%	-2.9%		
Wed	UK	Feb industrial production*		-0.2%	-0.5%		US Mar export price index	unch	-0.1%		
Apr 7	UK	Feb industrial production**		-0.3%	-0.3%		US Mar import price index	0.1%	-0.1%		
	UK	Feb manufacturing output*		-0.3%	0.1%		Hungary Feb current account balance	-\$250m	-\$171m		
	UK	Feb manufacturing output**		-1.5%	-0.9%		Fri Japan Feb machinery orders ex-ship**	-22.9			
	UK	Mar CIPS services survey		48.4		Apr 9	US Mar PPI	0.3%	-0.4%		
	UK	Mar provisional MO*		0.1%			US Mar PPI ex-food & energy	unch	unch		
	UK	Mar provisional MO**		5.2%			During the week...				
	Poland	Feb current account balance		-\$0.3bn	-\$0.08bn		Brazil Mar exports	\$3.27bn			
	Poland	Feb official forex reserves		\$6.09bn	\$27.09bn		Brazil Mar imports	\$3.05bn			
	US	Feb consumer credit		\$6.0bn	\$4.7bn		UK Mar Halifax prices*	-0.5%			
	Japan	Mar overall WPI*		0.2%			UK Mar Halifax prices**	3.6%			
	Japan	Feb overall WPI**		-3.8%			UK Mar BRC shop prices*	0.01%			
	Japan	Feb domestic WPI**		-2.1%			UK Mar BRC shop prices**	-0.28%			
	Canada	Mar help wanted index†		148	148						

†m on m, **y on y, †seasonally adjusted

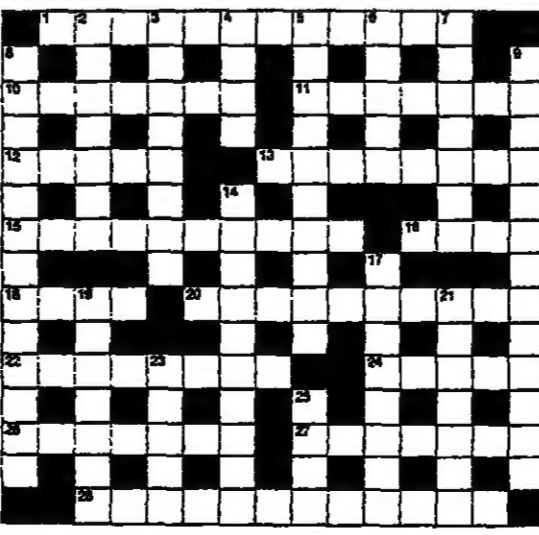
Statistics courtesy Standard & Poor's A&S

* in m, ** in y, † seasonally adjusted

Statistics courtesy Standard & Poor's S&P.

- ACROSS**
- Game shortcut said to be polluting tranquility (7,5)
 - Former spouse quoted as being overwrought (7)
 - Graduate working for poster (7)
 - Match absorbs a writer (5)
 - High-fliers play the fool before the Sabbath (9)
 - The last ends confusion sitting on the dealer's left (6,4)
 - The meadow's hot for her (4)
 - Ridicule the first person in French street (4)
 - Plunder left for kilijoy (10)
 - Film star entertains a clergyman (8)
 - Taxidermist initially given rotting body part (5)
 - Caught after no ball when cutting (7)
 - Caring madly about husband's mortification (7)
 - Record the start of peasants' revolt? That's bold! (12)

- DOWN**
- It produces fruit or vegetable (7)
 - Player arranged tune found in catalogue (6)
 - Uprising in Macedonia is swelling (4)
 - Question family relationship with oriental tart (7,3)
 - First eleven trouble having lost one match (5)
 - Back under following tip (7)
 - Hide garment and grub (13)
 - It provides shade for brood during ferry trip (5,8)
 - Thief pilfers hot stew (10)
 - One wanders round hospital for waste containers (8)
 - Surprise rattles Dicky (7)
 - Classical character, very small in the leg (7)
 - One breaking fast time, rested (5)
 - Injury creates endless panic (4)



Winner of Puzzle No.9,944: John O'Neill, Belfast

EASTER MONDAY PRIZE CROSSWORD

Set by ARMONIE

A prize of a Tomboy Lucra fountain pen and rollerball set, worth £25, will be awarded for the first correct solution opened. Solutions by Thursday April 15, marked Easter Monday Crossword on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 8HL, Solution on Monday April 19. Please allow 28 days for delivery of prizes.

Name: _____
Address: _____

Solution 9,944

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A E A O A
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